STATE CORI



CITY OF DOWAGIAC

Cass County, Michigan

FINANCIAL STATEMENTS

September 30, 2004



Michigan Deptartment of Treasury 496 (2-04) Auditing Procedures Report

issued under P.A		8, as am	ended.		T				10		
Local Government Type Local Government Name County ✓ City Township Village Other CITY OF DOWAGIAC CASS											
Audit Date Opinion Date Date Accountant Report Submitted to State: 1/24/05											
accordance Financial Sta We affirm the	with the tements at: compli	e State s for Co	ements of ounties and the Bulleti	the Govern I Local Units in for the Au	mental Accou	unting Stan ent in Michig Units of Gov		GASB) and thi igan Departme	e Uniform	Repo	ents prepared in pring Format fo
We further at	ffirm the	following	ing. "Yes" r ations	responses h	ave been disc	closed in the	financial state	ments, includio	d the motes	+1 9 14	the report of
You must che	ck the	applica	ble box for	each item b	elow.						
☐ Yes 🗸	No No	1. Ce	rtain comp	onent units/	funds/agencie	es of the loc	al unit are excl	uded from the	financial st	ateme	ents.
☐ Yes 🗸	Yes No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).										
☐ Yes 🗸] No		ere are in: nended).	stances of	non-compliand	ce with the	Uniform Acco	unting and Bu	idgeting Ac	t (P.A	a. 2 of 1968, as
☐ Yes 🗸	Yes Vo 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.									nance Act or its	
☐ Yes 🗸	/ No		The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).								
☐ Yes 🗸] No	6. Th	e local unit	t has been d	lelinquent in d	listributing ta	ax revenues tha	at were collecte	ed for anoth	er tax	king unit.
☐ Yes 🗸] No	7. pe	nsion bene	efits (normal	l costs) in the	current ye		is more than 1	00% funde	d and	ent year earned the overfunding r).
Yes 🗸] No		e local un ICL 129.24		dit cards and	has not ac	lopted an appl	icable policy a	as required	by P	.A. 266 of 1995
Yes 🗸	√ No	9. Th	e local unit	t has not add	opted an inves	stment polic	y as required b	by P.A. 196 of 1	1997 (MCL	129.9	5).
We have en	closed	the fol	lowing:					Enclosed	To Be Forward		Not Required
The letter of	comme	ents an	d recomme	endations.				✓			
Reports on i	ndividu	al feder	ral financia	l assistance	programs (pro	ogram audi	ts).	, , , , , , , , , , , , , , , , , , , ,			✓
Single Audit	Report	s (ASL	GU).								✓
Certified Public	UME 8	•									
Street Address 60 HARR		ANE					City SAGINAW		State MI	ZIP 48	603
Accountant Sig	Accountant Signature Date - 34-05										

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To the Honorable Mayor and Members of City Council City of Dowagiac, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dowagiac, Michigan as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Dowagiac's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dowagiac, Michigan, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

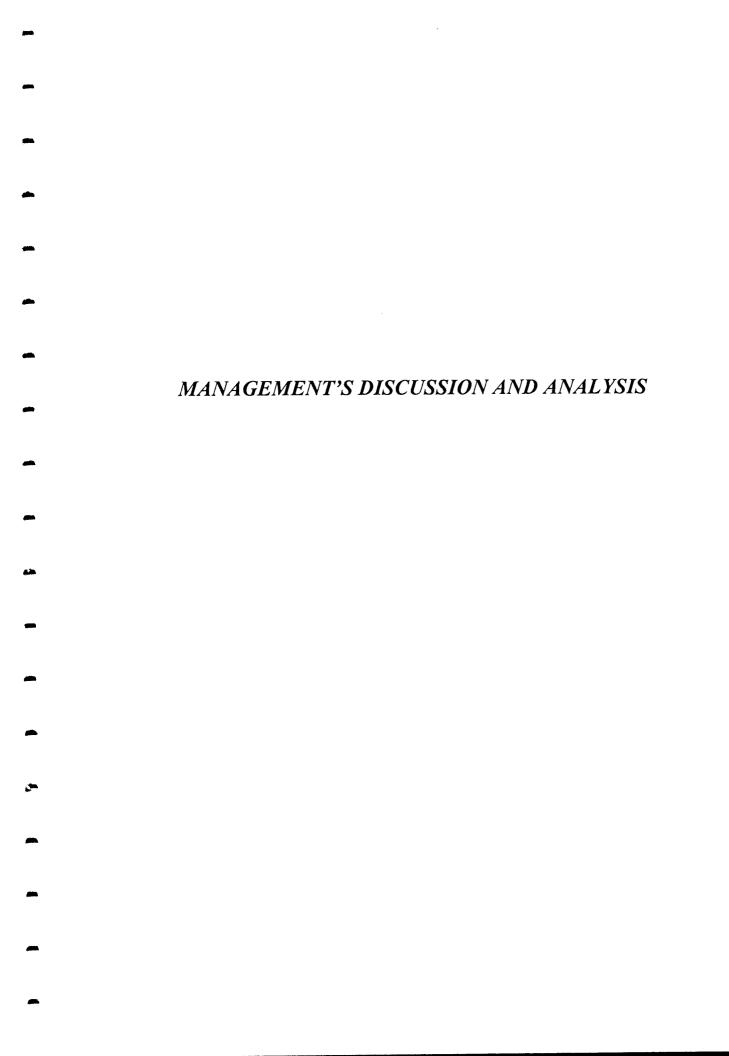
In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2004, on our consideration of the City of Dowagiac's, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison schedule as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dowagiac's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, and related statements, as of October 1, 2003.

Berthaurre & Co. November 4, 2004



Overview of the Financial Statements:

The 2004 financial statements of the City of Dowagiac follow a different format than in previous years. These financial statements have been changed to comply with the reporting requirements of the Government Accounting Standards Board Statement No. 34. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

Government-wide Financial Statements:

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide financial statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health.

The government-wide financial statements of the City are divided into three categories:

Governmental Activities – Most of the City's basic services are included here, such as the public safety, public works, and recreation departments, and general administration. Property taxes, Stateshared revenue, charges for services, grants, and transfers provide much of the funding.

Business-type Activities – The City charges fees to customers to help it cover the costs of certain services it provides. The City's electric, sewer, water and transportation systems are included here.

Component Units – The City includes the Local Development Finance Authority and the Downtown Development Authority in its report.

Fund Financial Statements:

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

Governmental Funds – Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The basic governmental fund financial statements can be found on pages 14-17 of this report.

Proprietary Funds – Services to which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund statements, like government-wide statements, provide both short-and long-term financial information. The basic proprietary fund financial statements can be found on pages 18-24 of this report.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside the government, such as the County Tax Fund where property taxes are collected and disbursed on behalf of the other local units of government, or restricted for a particular use, such as the Cemetery Trust Fund which was established for maintenance of the City's cemetery. The City is responsible for ensuring that the assets in these funds are used for their intended purposes. We exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations. The basic fiduciary fund financial statements can be found on pages 25-26 of this report

Financial Highlights:

- Assets of the City exceeded its liabilities at the end of the fiscal year by \$18,540,654 (net assets), a decrease of \$140,363 from the previous year. Of the \$18.5 million reported in net assets, approximately \$6.5 million may be used to meet the ongoing obligations to citizens and creditors (unrestricted net assets).
- Net assets of our governmental activities increased \$140,705, or 2.5 percent, while net assets of our business-type activities decreased \$281,068, or 2.2 percent.
- Unrestricted net assets for governmental activities are 44.8 percent of expenses. Unrestricted net assets for business-type activities are 62.2 percent of expenses.
- The General Fund reported revenues in excess of expenditures of \$86,517 before transfers out for the year. This resulted in a year end fund balance of \$687,929. Of this amount, \$557,853 is unreserved and undesignated, or 17.4 percent of General Fund expenditures.

The City as a Whole:

The City's combined net assets are \$18.5 million at September 30, 2004. Business-type activities make up \$12.6 million and governmental activities make up \$5.9 million of the total. Future reports will provide an analysis of comparative data from the statement of net assets and statement of activities. Comparative data is not required during the first year of reporting under GASB No. 34, and therefore, a comparative condensed statement of net assets and condensed statement of activities is not part of the management's discussion and analysis.

City of Dowagiac - Net Assets:

As noted earlier, the City's assets exceed its liabilities at the end of the fiscal year by \$18,540,654 (net assets). However, a major portion (52 percent) of the City's net assets represents its investment in capital assets (e.g., land, infrastructure, buildings, and equipment) less any related debt used to acquire or construct these assets. The City uses these assets to provide services to its citizens; thus, these assets are not available for spending.

Unrestricted net assets of the City of \$6,539,581 at the end of this year represents the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Furthermore, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

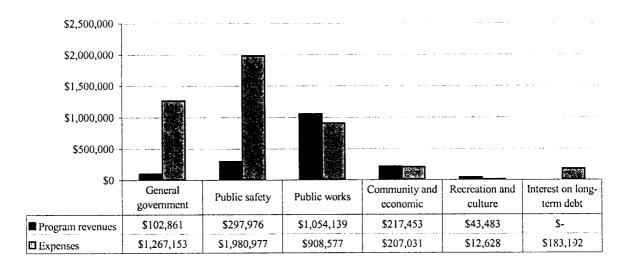
The following table depicts a condensed statement of net assets at September 30, 2004.

	Pr	Primary Government					
	Governmental	Business-type					
	Activities	Activities	Total				
	2004	2004	2004				
Assets:							
Current and other assets	\$ 5,230,223	\$ 6,635,509	\$ 11,865,732				
Capital assets	5,727,442	8,622,679	14,350,121				
Total assets	10,957,665	15,258,188	26,215,853				
Liabilities:							
Long-term liabilities	3,263,942	1,978,067	5,242,009				
Other liabilities	1,792,387	640,803	2,433,190				
Total liabilities	5,056,329	2,618,870	7,675,199				
Net assets:							
Invested in capital assets, net of related debt	2,870,622	6,837,679	9,708,301				
Restricted	975,787	1,367,330	2,343,117				
Unrestricted	2,054,927	4,434,309	6,489,236				
Total net assets	\$ 5,901,336	\$ 12,639,318	\$ 18,540,654				

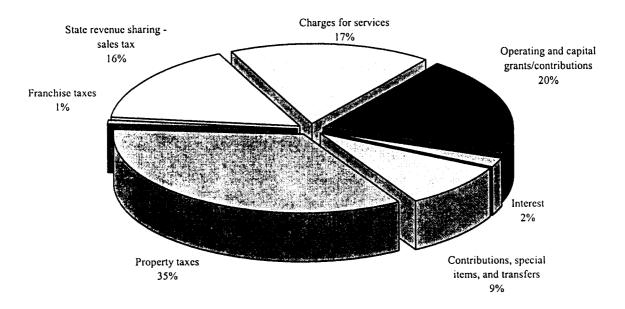
Governmental Activities:

For the year ended September 30, 2004, revenues for the City's governmental activities totaled \$4.2 million. Property taxes accounted for 35 percent of the total revenues, or \$1.6 million. State-shared revenues were 16 percent, or \$779,034. This is a decline of over 5.1% from the previous year when they totaled \$821,027. These revenues continue to be a concern as to future funding levels.

Governmental Activities Program Revenues and Expenses



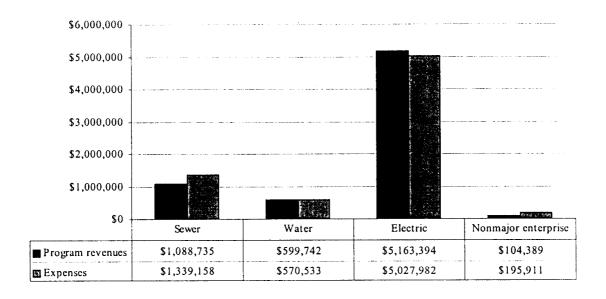
Governmental Activities Revenue by Source



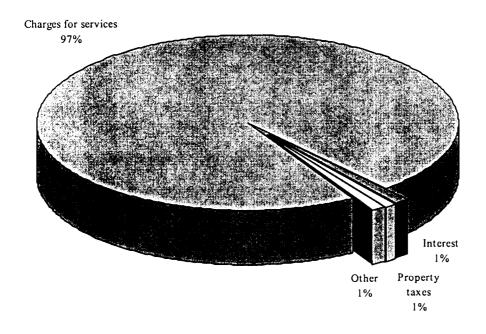
Business-type Activities:

For the year ended September 30, 2004, revenues for business-type activities were \$7.1 million. Charges for services were 97 percent of gross revenues, or \$6.8 million.

Business-type Activities Program Revenues and Expenses



Business-type Activities Revenue by Source



The City has four business type-activities: the sewer, water, and electric systems and DART. In total, these four activities generated \$6.8 million in charges for services, and incurred \$7.1 million in expenses. In addition, general revenues for business-type activities were approximately \$111,598. There was \$215,342 in transfers to other funds. The City's business-type activities experienced a decrease in net assets of approximately \$281,000 for the year.

Capital Assets and Debt Administration:

At the end of the fiscal year 2004, the City has \$16,595,251 invested, before depreciation, in a wide range of capital assets, including land, land improvements, buildings, equipment, sewer and water lines, and electric system. In addition, for the first time, the City is reporting infrastructure assets if any were acquired since October 1, 2003. Infrastructure assets include roads, bridges, sidewalks, storm drains, and other immovable assets.

Debt of \$2,856,820 related to the construction and acquisition of the above-mentioned capital assets is reported as a liability in the governmental activities in the statement of net assets.

Debt related to the sewer and water systems totaling \$1,785,000 is recorded as a liability in the business-type activities in the statement of net assets.

The City's Funds:

The fund financial statements provide detailed information on the most significant governmental funds – not the City as a whole. The City Council creates funds to help manage money for special purposes, as well as to show accountability for certain activities, such as special property tax millages. The City's major governmental funds for 2004 include the General Fund, Major Street Fund, and Local Street Fund.

The City's governmental funds reported combined fund balance of \$2,408,488 for this year, a decrease of \$59,466 from last year. Included in this decrease is the General Fund's excess of revenues over expenditures of approximately \$86,500.

The City was unable to have either a Major or Local Street paving program this year as most street funds were used or reserved for the completion of the S. Lowe Street reconstruction project that was completed in November of 2003.

The Electric, Water and Sewer Funds purchased a combined total of approximately \$185,000 in radioread meters/related supplies during the year. The conversion to these meters allows the meter reading employees to simply walk or drive to an area of the City and electronically gather the reading information from all converted customers within 100 to 200 feet of the receiving device used without inputting or writing down any data, as was done in the past. As of September 30, 2004, approximately 74% of the water meters (1,693 out of 2,301) and 93% of the electric meters (2,483 out of 2,676) had been replaced with the radio-read meters. At the end of the year, it took approximately eight (8) days to read all the meters, whereas under the old manual system, it took up to 17 days. It is anticipated that the meter replacement program will be completed during fiscal year 2005. The estimated time to read all meters once this conversion is complete will be five (5) to six (6) days.

The construction budget for the Major Streets Fund was increased from \$0 to \$220,000 to reflect the outstanding costs for the South Lowe Street reconstruction project. As of September 30, 2004, the City has yet to be invoiced by the State for an estimated \$147,000 representing our remaining share of costs.

During the year, the budget for the Municipal Facilities/Improvement Fund (MFI) had to be adjusted to reflect a major rehab project at the Lincoln School that was purchased by the City. The total costs during the fiscal year for this project was nearly \$140,000, which was financed with the fund balance of this fund. The balance of this rehab project (currently estimated at \$25,000) will be completed during fiscal year 2005 and will be funded by using the fund balance of the MFI Fund.

Land amounting to 4.63 acres was sold in the M-51 South Commercial Development area for \$194,460 for a housing complex. A credit of \$67,068 was granted for the development of a road to service the complex. The net proceeds received were used, in part, to pay the debt service and funding transfers required for the construction of this development area which amounted to \$110,120.

General Fund Budgetary Highlights:

The General Fund budget was adjusted throughout the year to reflect nearly \$80,000 less in State-shared revenue than was originally forecasted by the State when the budget was assembled in March 2003. This decrease along with low interest rates on the City's investments has placed a strain on maintaining a balanced budget.

Interfund transfers from other City fund budgets was increased by nearly \$65,000 to fully reflect the costs involved from the General Fund staff to administer said funds. The Building Department revenue decreased over \$20,000 as a result of the elimination of the proposed rental inspection program that was estimated to produce \$38,000 in revenue and the receipt of nearly \$20,000 more in building permit fees than originally anticipated. At the same time, Building Department expenses and related fringe benefit costs decreased nearly \$40,000 with the elimination of a budgeted full time rental inspector.

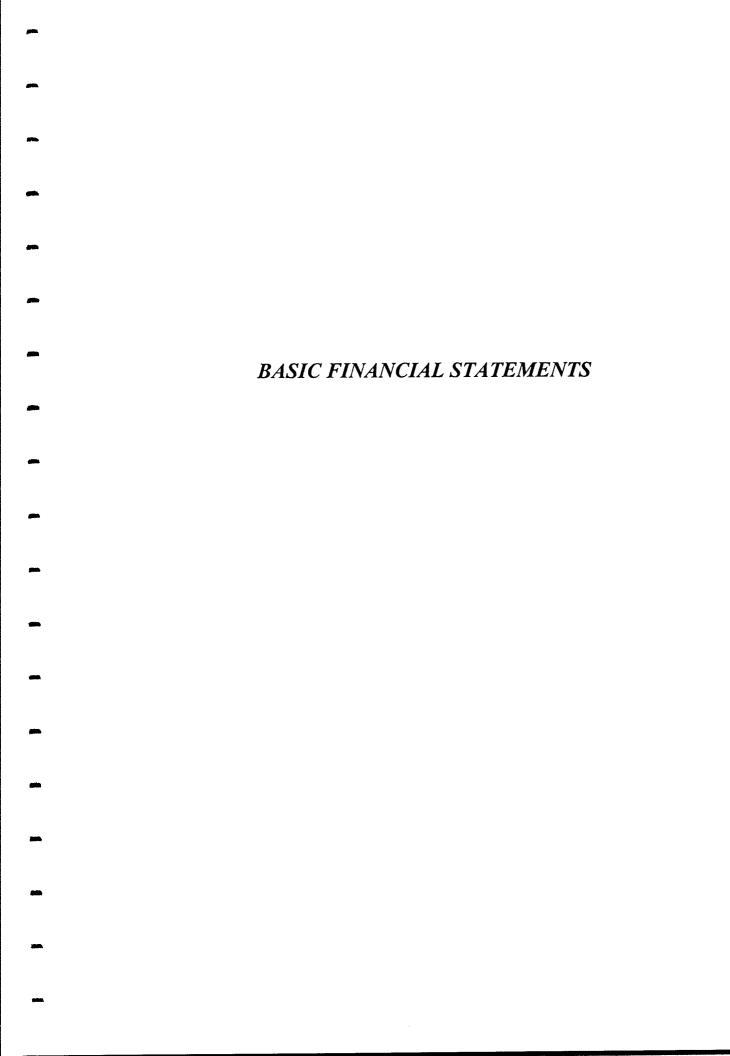
The Fire Department budget increased approximately \$109,000 because of a grant it received from FEMA for \$94,211. It was used to purchase 20 Scott air packs and an air compressor for refilling the tanks. The Streetscape Fund received a fund transfer of \$110,000 from the Electric Fund to finance the rehabilitation of the Commercial/Penn intersection that was completed in fiscal year 2005.

Economic Factors:

The City continues to maintain positive fund balances in each of its funds. However, concerns arise when considering the revenues and expenses that the City is facing in upcoming years. The major sources of revenue for the City are property taxes, State-shared revenues, and charges for services. These sources have certain limitations outside of the City's control – taxable value of property in the City has remained flat, resulting in small increases in property taxes; the State of Michigan has experienced budget deficits and has reduced revenue-sharing payments to local governments to help in reducing their deficit; and the economy has restricted the City in what it can charge its customers. In comparison, certain expenses continue to rise at a rate higher than inflation (e.g., health care). We are continuing to plan for the long term, and will continue to balance the budgets through controls over spending, while striving to provide the City's residents with the same level of service to which they have become accustomed.

Contacting the City's Financial Management:

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact David Pilot, Finance Director, 241 S. Front Street, Dowagiae, Michigan, 49047.



STATEMENT OF NET ASSETS

September 30, 2004

	Pri	Primary Government					
	Governmental	Business-type		Component			
	Activities	Activities	<u>Total</u>	Units			
Assets:							
Cash and cash equivalents	\$ 1,633,926	\$ 1,537,850	\$ 3,171,776	\$ 13,716			
Investments	2,239,575	1,866,123	4,105,698	•			
Receivables	1,097,679	1,764,948	2,862,627	130,542			
Internal balances	146,748	(146,748)	-	•			
Prepaid items and other assets	112,295	246,006	358,301	481,936			
Restricted cash and cash equivalents	-	437,587	437,587	•			
Restricted investments	-	929,743	929,743	-			
Capital assets:							
Nondepreciable capital assets	2,698,903	66,451	2,765,354	-			
Depreciable capital assets, net	3,028,539	8,556,228	11,584,767	-			
Total assets	10,957,665	15,258,188	26,215,853	626,194			
Liabilities:							
Accounts payable and accrued expenses	360,961	640,803	1,001,764	384,219			
Deferred revenue	1,431,426	-	1,431,426	56,927			
Long-term liabilities:	, - ,		·, - ,	, ·			
Due within one year	144,406	65,000	209,406	85,000			
Due in more than one year	3,119,536	1,913,067	5,032,603	544,106			
Total liabilities	5,056,329	2,618,870	7,675,199	1,070,252			
Net assets:							
Invested in capital assets, net of related debt	2,820,277	6,837,679	9,657,956	-			
Restricted for:							
Debt service	68,159	260,000	328,159	-			
Capital projects	17,287	-	17,287	-			
Streets	229,230	-	229,230	-			
Nonexpendable cemetery principal	661,111	-	661,111	-			
Replacement of capital assets	, -	1,107,330	1,107,330	-			
Unrestricted	2,105,272	4,434,309	6,539,581	(444,058)			
Total net assets	\$ 5,901,336	\$ 12,639,318	\$ 18,540,654	\$ (444,058)			

STATEMENT OF ACTIVITIES

Year Ended September 30, 2004

		_		Pı					
	Expenses			narges for Services	Gr	perating ants and atributions	Gr	Capital ants and tributions	Net (Expense) Revenue
Functions/Programs PRIMARY GOVERNMENT: Governmental activities: General government Public safety Public works Community and economic development Recreation and culture Interest on long-term debt	\$	1,267,153 1,980,977 908,577 207,031 12,628 183,192	\$	102,785 54,738 530,382 53,271 43,483	\$	- 149,027 523,757 164,182 - -	\$	76 94,211 - - - -	\$ (1,164,292) (1,683,001) 145,562 10,422 30,855 (183,192)
Total governmental activities		4,559,558		784,659		836,966		94,287	(2,843,646)
Business-type activities: Sewer Water Electric Nonmajor - DART	_	1,339,158 570,533 5,027,982 195,911		1,088,735 599,742 5,163,394 16,719		- - - 73,060		14,610	(250,423) 29,209 135,412 (91,522)
Total business-type activities Total primary government	<u>\$</u>	7,133,584 11,693,142	<u>\$</u>	6,868,590 7,653,249		73,060 910,026	<u>\$</u>	14,610	\$ (3,020,970)
COMPONENT UNITS: Downtown development authority Local development finance authority Total component units	\$ - \$		\$ - \$	-	\$ - <u>\$</u>	41,866			\$ (117,529)

continued

		overnmental Activities	Business- type Activities		Total		C	omponent Units
Changes in net assets	_		_			4- 4 4		
Net (Expense) Revenue	<u>\$</u>	(2,843,646)	<u>\$</u>	(177,324)	<u>\$</u>	(3,020,970)	<u>\$</u>	(117,529)
General revenues:								
Taxes:								
Property taxes, levied for general purpose		1,264,059		43,001		1,307,060		170,270
Property taxes, levied for solid waste disposal		113,091		-		113,091	091	•
Payment in lieu of property taxes		248,879		-		248,879		-
Franchise taxes		60,089		-		60,089		-
State revenue sharing - sales tax		779,034		-		779,034		-
Unrestricted investment earnings		96,673		68,597		165,270		5,051
Miscellaneous		20,188		-		20,188		-
Contributions to principal of permanent funds		12,401		-		12,401		-
Special item - Sale of assets		224,303		-		224,303		-
Transfers		165,634	_	(215,342)		(49,708)		49,708
Total general revenues, contributions,								
special items, and transfers		2,984,351		(103,744)		2,880,607		225,029
Change in net assets		140,705		(281,068)		(140,363)		107,500
Net assets, beginning of year		5,760,631		12,920,386	_	18,681,017		(551,558)
Net assets, end of year	\$	5,901,336	\$ 1	12,639,318	<u>\$</u>	18,540,654	\$	(444,058)

GOVERNMENTAL FUNDS

BALANCE SHEET

September 30, 2004

	General Fund		Major Street Fund		Local Street Fund		lonmajor vernmental Funds	Go	Total overnmental Funds
Assets: Cash and cash equivalents Investments Taxes receivable Accounts receivable Notes receivable	\$ 1,167,324 617,123 183,137 57,112	\$	68,650 77,155 - 192 - 476	\$	28,353 - 142 -	\$	305,213 956,617 - 10,000 481,436	\$	1,541,187 1,679,248 183,137 67,446 481,436
Interest receivable Due from other governmental units Due from other funds Prepaid expenditures Land held for development Advance to component unit	7,249 161,466 8,133 75,858 - -	_	56,867 - 3,471 -		323 20,628 323 2,977		5,422 8,133 174,697 5,336 8,900 84,050	_	13,470 247,094 183,153 87,642 8,900 84,050
Total assets	\$ 2,277,402	\$	206,811	\$	52,746	\$:	2,039,804	\$	4,576,763
Liabilities and Fund Balances: Liabilities:									
Checks written in excess of deposits Accounts payable	\$ -	\$	- 0.400	\$	7,232 6,834	\$	6,685	\$	13,917
and accrued expenses Due to other governmental units Due to other funds	63,304 57 - 56,927		9,490 - 323				29,420 - 36,082		109,048 57 36,405
Due to component unit Deposits payable Deferred revenue	340 1,468,845		- -		•	******	1,300 481,436		56,927 1,640 1,950,281
Total liabilities	1,589,473		9,813	_	14,066		554,923		2,168,275
Fund balances: Reserved for:									
Prepaid expenditures Nonexpendable cemetery principal Unreserved:	75,858		3,471		2,977		5,336 661,111		87,642 661,111
Designated, reported in: General fund Special revenue funds Undesignated, reported in:	54,218 -		-		-		- 2,496		54,218 2,496
General fund Special revenue funds Debt service funds Capital projects funds	557,853 - - - -		193,527		35,703		730,492 68,159 17,287		557,853 959,722 68,159 17,287
Total fund balances	687,929		196,998	_	38,680		1,484,881		2,408,488
Total liabilities and fund balances	\$ 2,277,402	<u>S</u>	206,811	<u>\$</u>	52,746	\$	2,039,804	<u>\$</u>	4,576,763

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

September 30, 2004

Total fund balances for governmental funds		\$ 2,408,488
Total net assets reported for governmental activities in the statement of of net assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	4,905,229	
Less accumulated depreciation	(550,373)	4,354,856
Interest payable in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.		(36,816)
Deferred revenues reported in the governmental funds are recognized as revenues for the governmental activities.		
Property taxes	37,419	
Loans	481,436	518,855
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:		
General obligation bond payable	(1,220,000)	
Loans and notes payable	(1,636,820)	
Compensated absences payable	(402,950)	(3,259,770)
The assets and liabilities of internal service funds are included in governmental		
activities in the statement of net assets.		1,915,723
Net assets of governmental activities		\$ 5,901,336
vier modern of Bo in without manifestation		

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended September 30, 2004

	General Fund	Major Street Fund	Local Strect Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 1,512,938	\$ -	\$ -	\$ 113,091	\$ 1,626,029
Licenses and permits	119,608	-	-	-	119,608
Federal grants	100,749	-	-	113,842	214,591
State grants	786,748	378,682	143,440	78,473	1,387,343
Contributions from other units	64,150	-	-	-	64,150
Charges from services	542,950	-	-	500	543,450
Fines and forfeits	7,350	-	-	21,075	28,425
Interest and rents	61,697	1,066	(157)	53,068	115,674
Other revenue	91,488	75	142	304,281	395,986
Total revenues	3,287,678	379,823	143,425	684,330	4,495,256
Expenditures: Current					
General government	930,268	-	-	4	930,272
Public safety	1,354,753	-	-	104,684	1,459,437
Public works	42,318	345,822	175,926	268,530	832,596
Community and economic development	-	-	-	232,031	232,031
Recreation and culture	-	-	-	7,555	7,555
Other	756,331	-	-	-	756,331
Capital outlay	117,491	-	-	25,989	143,480
Debt service					
Principal	-	-	-	133,247	133,247
Interest and charges	-		•	186,500	186,500
Total expenditures	3,201,161	345,822	175,926	958,540	4,681,449
Excess (deficiency) of					
revenues over expenditures	86,517	34,001	(32,501)	(274,210)	(186,193)
Other financing sources (uses)					
Transfers in	-	· <u>-</u>	37,000	375,874	412,874
Transfers out	(76,788)	(92,537)	(524)	(116,298)	(286,147)
Total other financing sources (uses)	(76,788)	(92,537)	36,476	259,576	126,727
Net change in fund balances	9,729	(58,536)	3,975	(14,634)	(59,466)
Fund balances, beginning of year	678,200	255,534	34,705	1,499,515	2,467,954
Fund balances, end of year	\$ 687,929	\$ 196,998	\$ 38,680	\$ 1,484,881	\$ 2,408,488

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

September 30, 2004

Net change in fund balances - total governmental funds	S	(59,466)
Total change in net assets reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures and sale of assets as revenues. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	124,754	
Less depreciation expense	(52,278)	
Less basis in land sold	(22,131)	50,345
Revenues in the statement of activities that do not provide current financial resources are reported as deferred revenue in the funds.		
Loans		25,000
Repayments of principal on long-term obligations are expenditures in governmental funds, but the payment reduces long-term liabilities in the statement of net assets.		133,247
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in compensated absences payable	(25,196)	
Change in accrued interest payable	3,308	(21,888)
The net revenue (expense) of the internal service fund is reported with governmental activities.		13,467
Change in net assets of governmental activities	<u> </u>	140,705

STATEMENT OF NET ASSETS

September 30, 2004

				Governmental			
	Major Enterprise Funds			Enterprise		Activities	
	Sewer Fund	Water Fund	Electric Fund	DART Fund	Total Enterprise Funds	Internal Service Funds	
Assets:							
Current assets:							
Cash and cash equivalents	\$ 86,439	\$ 24,868	\$1,393,504	\$ 33,039	\$1,537,850	\$ 92,739	
Investments	1,575,570	117,830	-	172,723	1,866,123	560,327	
Accounts receivable	171,042	127,501	1,147,966	296	1,446,805	-	
Notes receivable	-	- -	-	_	-	13,482	
Interest receivable	20,297	1,003	6,193	2,568	30,061	7,564	
Due from other governmental	ŕ						
units	-	-	-	3,016	3,016	-	
Due from other funds	6,079	68,818	-	-	74,897	-	
Prepaid expenses	23,584	8,419	24,236	4,772	61,011	15,753	
Inventory	15,279	54,935	114,781		184,995		
Total current assets	1,898,290	403,374	2,686,680	216,414	5,204,758	689,865	
Noncurrent assets:							
Restricted cash and cash equivalents	110,000	-	327,587	_	437,587	-	
Restricted investments	150,000	-	779,743	-	929,743	-	
Capital assets:	•						
Nondepreciable capital assets	47,710	1,966	16,775	-	66,451	-	
Depreciable capital assets, net	4,064,935	2,010,524	2,424,130	56,639	8,556,228	1,372,586	
Advance to component unit	285,066		-		285,066	**	
Total noncurrent assets	4,657,711	2,012,490	3,548,235	56,639	10,275,075	1,372,586	
Total assets	6,556,001	2,415,864	6,234,915	273,053	15,479,833	2,062,451	

continued

STATEMENT OF NET ASSETS, CONTINUED

September 30, 2004

		_				
		Governmental				
	Majo	r Enterprise F	unds	Enterprise	20. 4 . 1	Activities
	Sewer Fund	Water Fund	Electric Fund	DART Fund	Total Enterprise Funds	Internal Service Funds
Liabilities:						
Current liabilities:						
Checks written in excess of depo	osits					
deprecaition	-	-	-	-	-	132,230
Accounts payable						
and accrued expenses	117,148	34,876	363,615	3,392	519,031	10,326
Due to other governmental						
units	1,581	-	(614)	-	967	-
Due to other funds	7,893	2,782	210,970	-	221,645	-
Deposits payable	143	8,535	73,583	-	82,261	-
Compensated absences						
payable	55,029	18,961	96,341	22,736	193,067	4,172
Accrued interest payable	21,074	10,545	-	-	31,619	-
Other current liabilities	6,925	-	-	-	6,925	-
Current portion of long-term						
debt	43,233	21,767			65,000	
Total current liabilities	253,026	97,466	743,895	26,128	1,120,515	146,728
Noncurrent liabilities:						
Long-term debt	1,146,492	573,508		-	1,720,000	
Total noncurrent liabilities	1,146,492	573,508	-	-	1,720,000	-
		CEO OF 4	540.00 5	26120	2010515	
Total liabilities	1,399,518	670,974	743,895	26,128	2,840,515	146,728
Net assets:						
Invested in capital assets,						
net of related debt	2,922,920	1,417,215	2,440,905	56,639	6,837,679	1,372,586
Restricted for:	, ,					
Debt service	260,000	-	-	-	260,000	-
Replacement of capital assets	-	-	1,107,330	-	1,107,330	-
Unrestricted	1,973,563	327,675	1,942,785	190,286	4,434,309	543,137
Total net assets	\$5,156,483	\$1,744,890	\$5,491,020	\$ 246,925	\$12,639,318	\$1,915,723

 $\label{thm:companying} \textit{The accompanying notes are an integral part of these financial statements}.$

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended September 30, 2004

-		
Ructr	occ_tvno	Activities

		Business-type Activities										
		Major Enterprise Funds						lonmajor nterprise			Governmental Activities	
	Sew Fun		Water Fund		Electric Fund		DART Fund		Total Enterprise Funds		Internal Service Funds	
Operating revenues:			_		_		_		_		_	
Charges for services	\$ 1,04	3,762	\$	550,609	\$	5,113,793	\$	15,806	\$	6,723,970	\$	-
Equipment rental		<u>-</u>		-		<u>-</u>		-		-		473,589
Penalties		6,144		5,625		33,625		-		45,394		-
Other	3	8,829		25,892		15,976		913	_	81,610		5,201
Total operating revenues	1,08	8,735		582,126		5,163,394	_	16,719	_	6,850,974	_	478,790
Operating expenses:												
Personnel	33	7,874		166,370		475,892		80,599		1,060,735		42,787
Fringe benefits		2,817		78,112		173,043		41,097		475,069		16,262
Supplies		4,739		21,395		27,165		6,997		120,296		53,095
Property tax equivalents		´-		· -		239,289		· -		239,289		-
Contracted services	16	6,751		26,437		63,789		5,061		262,038		25,545
Purchase of power		-		-		3,217,638		-		3,217,638		-
Administrative expense	11	2,566		78,720		205,260		10,167		406,713		12,890
Telephone		5,030		2,649		3,905		962		12,546		-
Mileage		1,680		1,680		6,331		-		9,691		-
Dues and membership fees		-		-		15,310		-		15,310		-
Education and training		1,341		2,139		8,431		(320)		11,591		-
Printing and publishing		-		-		50		-		50		-
Insurance	4	2,780		13,546		60,553		3,811		120,690		34,145
Utilities	11	2,416		32,854		69,413		-		214,683		14,946
Repair and maintenance		0,185		37,334		177,447		12,343		287,309		77,395
Equipment rental		5,355		14,602		133,091		8,700		221,748		2,712
Other services and supplies		394		873		1,248		366		2,881		6,222
Depreciation	12	1,773		62,071	_	150,127		26,128		360,099	_	286,935
Total operating expenses	1,27	5,701		538,782	_	5,027,982	_	195,911	_	7,038,376	_	572,934
Operating income (loss)	(18	6,966)		43,344		135,412	•	(179,192)		(187,402)	١	(94,144)

continued

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS, CONTINUED

Year Ended September 30, 2004

		_				
	Majo	or Enterprise F	unds	Nonmajor Enterprise	Governmental Activities	
	Sewer Fund	Water Fund	Water Electric		Total Enterprise Funds	Internal Service Funds
Non-operating revenues (expenses):						
Property taxes	-	-	-	43,001	43,001	-
Federal grants	-	-	-	14,610	14,610	•
State grants	-	-	-	73,060	73,060	-
Interest income	30,434	3,538	33,379	1,246	68,597	17,981
Rental income	-	17,616	-	-	17,616	7,200
Gain (loss) on sale of assets	-	-	-	-	-	43,523
Interest expense	(63,457)	(31,751)			(95,208)	-
Total non-operating revenues (expenses)	(33,023)	(10,597)	33,379	131,917	121,676	68,704
Net income (loss) before operating transfers	(219,989)	32,747	168,791	(47,275)	(65,726)	(25,440)
Operating transfers:						
Transfer from other funds	96,570	45,000	40,772	•	182,342	96,194
Transfer to other funds	(21,684)	(8,555)	(366,729)	(716)	(397,684)	(57,287)
Total operating transfers	74,886	36,445	(325,957)	(716)	(215,342)	38,907
Net income (loss)	(145,103)	69,192	(157,166)	(47,991)	(281,068)	13,467
Net assets, beginning of year, as restated	5,301,586	1,675,698	5,648,186	294,916	12,920,386	1,902,256
Net assets, end of year	\$ 5,156,483	\$ 1,744,890	\$ 5,491,020	\$ 246,925	\$ 12,639,318	\$ 1,915,723

STATEMENT OF CASH FLOWS

Year Ended September 30, 2004

	Major Enterprise Funds					nmajor terprise		Governmental Activities	
	Sewer Fund		Water Fund	Electric Fund	_	OART Fund	Total Enterprise Funds	_	Internal Service
Cash flows from operating activities:									
Cash received from customers	\$ 1,140,875	\$	579,619	\$ 5,055,808	\$	12,548	\$ 6,788,850	\$	-
Cash payments to employees	(315,817)		(158,774)	(451,677)		(74,557)	(1,000,825)		(51,631)
Cash payments to suppliers for									
goods and services	(811,202)		(301,876)	(4,365,790)		(92,254)	(5,571,122)		(122,972)
Cash (payments) receipts for			(((02 ()	210.070			146 740		170 0 10
interfund services Other receipts	1,814		(66,036)	210,970		-	146,748		479,049 12,112
Other receipts								-	12,112
Net cash provided (used) by operating activities	15,670		52,933	449,311	((154,263)	363,651		316,558
Cash flows from non-capital									
financing activities:									
Operating transfers in	96,570		45,000	40,772		-	182,342		96,194
Operating transfers out	(21,684)	_	(8,555)	(366,729)		(716)	(397,684)		(57,287)
Net cash provided (used)									
by non-capital financing									
activities	74,886		36,445	(325,957)		(716)	(215,342)	_	38,907
Cash flows from capital and									
related financing activities:									
Property taxes	-		-	-		43,001	43,001		-
Federal grants	-		-	-		14,610	14,610		-
State grants	-		-	-		73,060	73,060		-
Acquisition and construction of									
capital assets	(217,817)		(71,276)	(170,979)		-	(460,072)		(315,868)
Principal payments	(39,991)		(20,009)	-		-	(60,000)		-
Interest paid	(63,457)		(31,751)	-			(95,208)		
Net cash provided (used) by capital and related									
financing activities	(321,265)		(123,036)	(170,979)		130,671	(542,220)	_	(315,868)

continued

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended September 30, 2004

	Majo	or Enterprise F	unds	Nonmajor Enterprise		Governmental Activities
	Sewer Fund	Water Fund	Electric Fund	DART Fund	Total Enterprise Funds	Internal Service
Cash flows from investing activities:						
Interest received Rent received	30,434	3,538 17,616	33,379	1,246	68,597 17,616	17,981 7,200
Net cash provided (used) by investing activities	30,434	21,154	33,379	1,246	86,213	25,181
Net increase (decrease) in cash and cash equivalents	(200,275)	(12,504)	(14,246)	(23,062)	(307,698)	64,778
Cash and cash equivalents, beginning of year	2,122,284	155,202	2,515,080	228,824	5,021,390	588,288
Cash and cash equivalents, end of year	\$ 1,922,009	\$ 142,698	\$ 2,500,834	\$ 205,762	\$ 4,713,692	\$ 653,066

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended September 30, 2004

Income (Loss) to Net Cash Provided (Used) by Operating								
Activities:								
Operating income (loss)	\$	(186,966)	\$ 43,344	\$	135,412	\$ (179,192)	\$ (187,402) \$	(94,144)
Adjustments								
Depreciation		121,773	62,071		150,127	26,128	360,099	286,935
Change in assets and liabilities								
Accounts receivable		44,554	(2,602)		(110,143)	(44)	(68,235)	5,460
Notes receivable		-	-		-	-	-	4,740
Accrued interest receivable		(11,744)	1,095		2,557	(1,111)	(9,203)	2,171
Due from other governmental								
units		2,162	-		-	(3,016)	(854)	•
Due from other funds		(6,079)	(68,818)		-	-	(74,897)	•
Prepaid expenses		(3,645)	(767)		(2,404)	(2,167)	(8,983)	(6,868)
Inventory		1,080	1,167		11,498	-	13,745	-
Advance to component unit		17,168	-		-	-	17,168	-
Checks written in excess of								
deposits		•	-		-	-	-	132,230
Accounts payable and accrued								
expenses		7,242	8,615		39,639	(903)	54,593	(5,122)
Due to other governmental								
units		(524)	-		(11,733)	-	(12,257)	-
Due to other funds		7,893	2,782		210,970	-	221,645	-
Deposits payable		143	(300)		(827)	•	(984)	-
Deferred revenue		-	(1,000)		-	-	(1,000)	-
Compensated absences payable		22,057	7,596		24,215	6,042	59,910	(8,844)
Accrued interest payable Other current liabilities	_	(500) 1,056	 (250)	_	<u>-</u>	 <u>-</u>	 (750) 1,056	
Net cash provided (used) by operating activities	\$	15,670	\$ 52,933	\$	449,311	\$ (154,263)	\$ 363,651 \$	316,558

FIDUCIARY FUNDS

STATEMENT OF NET ASSETS

September 30, 2004

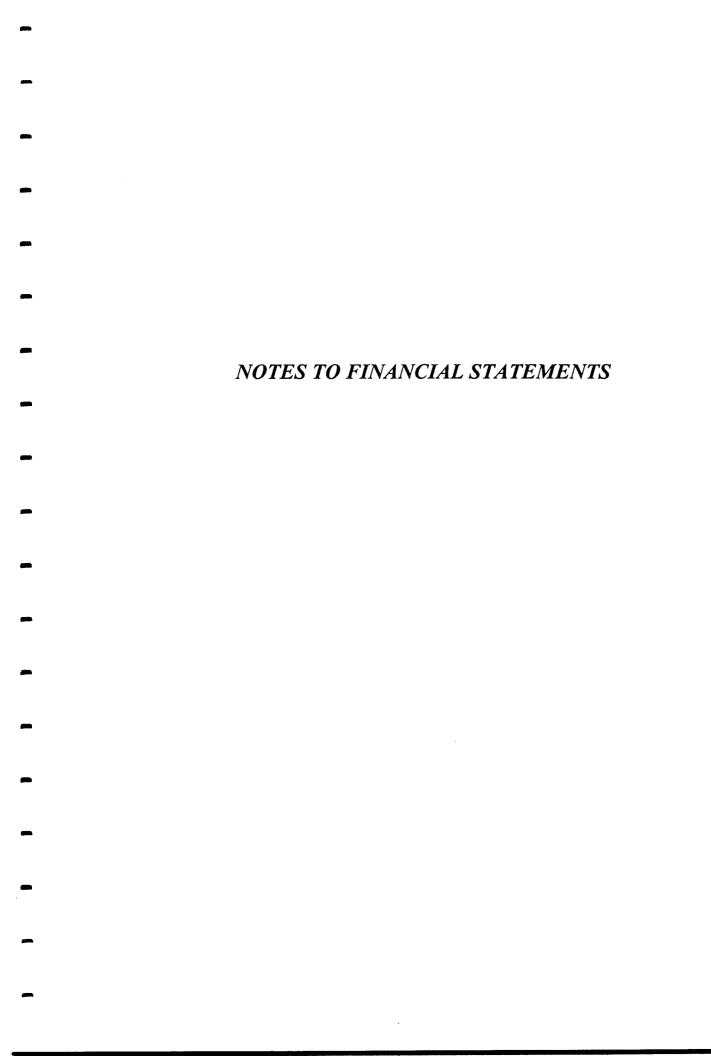
	Pension and Other Employee		Total
	Benefit Trust Fund	Agency Funds	Fiduciary Funds
Assets:			
Cash and cash equivalents	\$ 79,992	\$ 66,011	\$ 146,003
Investments	113,413	-	113,413
Interest receivable	1,293	-	1,293
Prepaid expenses	8,430		8,430
Total assets	203,128	66,011	269,139
Liabilities:			
Accounts payable and accrued expenses	1	366	367
Due to other governmental units	-	65,645	65,645
Deferred revenue	1,455	•	1,455
Total !iabilities	1,456	66,011	67,467
Net Assets:			
Unrestricted	201,672		201,672
Total net assets	\$ 201,672	\$ -	\$ 201,672

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN NET ASSETS

Year Ended September 30, 2004

	Pension and Other Employee Benefit Trust Fund
Additions	
Employee contributions	\$ 62,977
Employer contributions	49,817
Investment income (loss)	(1,043)
Total additions	111,751
Deductions	
Benefit payments	103,902
Total deductions	103,902
Net increase (decrease)	7,849
Net assets, beginning of year	193,823
Net assets, end of year	\$ 201,672



NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Dowagiac conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City and its component units. The component units discussed below are included in the City's reporting entity because of their operational or financial relationship with the City.

Discretely Presented Component Units - The component units columns in the combined financial statements include the financial data of the City's two component units. These units are reported in a separate column to emphasize that they are legally separate from the City. The component units are described as follows:

Downtown Development Authority - The Downtown Development Authority (DDA) is a separate legal entity. The budgets and expenditures of the DDA are approved by the City Council. The City has the ability to significantly influence operations of the Downtown Development Authority. The City has backed the DDA's long-term debt.

Local Development Finance Authority - The Local Development Finance Authority (LDFA) is a separate legal entity. The budgets and expenditures of the LDFA are approved by the City Council. The City has the ability to significantly influence operations of the Downtown Development Authority.

Blended Component Unit - The transactions of the Dowagiac Municipal Building Authority are included in the funds of the primary government. The purpose of the Building Authority was to finance the construction of the new City Hall in 1997.

The Dowagiac Housing Commission is not a component unit of the City.

Basis of Presentation - Fund Accounting:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

Basis of Accounting:

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

September 30, 2004

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions.

The government-wide focus is on the sustainability of the City as an entity and the change in the City's net assets resulting from current year activities.

FUND FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

September 30, 2004

The City reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the City. It is used to account for all financial resources, except for those required to accounted for in another fund.

Major Street Fund – The Major Street Fund is used to account for the maintenance and construction of the City's major street system.

Local Street Fund – The Local Street Fund is used to account for the maintenance and construction of the City's local street system.

The City reports the following major enterprise funds:

Sewer Fund – The Sewer Fund is used to account for the revenues and expenses for the operation of a sewer system.

Water Fund – The Water Fund is used to account for the revenues and expenses for the operation of a water system.

Electric Fund – The Electric Fund is used to account for the revenues and expenses for the operation of an electric system.

Assets, Liabilities and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property Taxes – Property taxes attach as an enforceable lien on property as of December 31. City taxes are levied on the following July 1 and are due without penalty on or before September 15 with the final collection date of February 28 before they are added to the County tax rolls. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are measurable and available.

The 2003 taxable valuation of the City totaled \$88,567,825, on which ad valorem taxes levied consisted of 14.1521 mills for the City's operating purposes, .5000 for D.A.R.T, and 1.3147 for solid waste disposal.

Inventories and Prepaid Expenses – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses in both the government-wide and fund financial statements.

September 30, 2004

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized. Buildings and improvements, infrastructure, vehicles, machinery and other equipment, and furniture and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Infrastructure	20-50 years
Vehicles	5-25 years
Machinery and other equipment	5-33 years
Furniture and equipment	5-25 years

Compensated Absences – It is the City's policy to permit employees to accumulate earned but unused sick and vacation days. Employees working the equivalent of a 40-hour work week shall have a maximum cash surrender value of accumulated sick leave of up to 80% of 960 hours. Fire department employees working the equivalent of five 24-hour days in a bi-weekly period shall have a maximum cash surrender value of accumulated sick leave of up to 36.9231% of 2,756 hours. The maximum accumulated sick hours is dependent upon hire date. There is no maximum cash surrender value of accumulated vacation leave. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual's employment has terminated as of year end.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

September 30, 2004

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Accounting Change:

GASB Statement No. 34 - Effective October 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. Changes to the financial statements as a result of GASB No. 34 are as follows:

A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations has been included.

Government-wide financial statements prepared using full accrual accounting for all of the City's activities have been provided.

Capital assets in the governmental activities column of the statement of net assets include assets totaling \$4,808,806 of which \$6,011,567 was previously reported in the General Fixed Assets Account Group. Capital assets at October 1, 2003 have been adjusted by \$504,295 to reflect the

historical cost of the City's capital assets at that date. In addition, the governmental activities column includes bonds and other long-term obligations totaling \$3,424,517 of which \$3,367,821 was previously reported in the General Long-term Debt Account Group. The additional \$56,696 is due to accrued interest payable on long-term obligations.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1. Prior to the first Council meeting in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them, for the General Fund and Special Revenue Funds.
- 2. A public hearing is conducted to obtain taxpayer comments.
- 3. Prior to the third Monday in May, the budget is legally enacted through passage of a resolution.
- 4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency and Internal Service Funds.

September 30, 2004

- 5. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the City Council is included in the required supplemental information.
- 6. All annual appropriations lapse at fiscal year end.

Excess of Expenditures Over Appropriations in Budgeted Funds:

During the year, the City did not incur expenditures that were materially in excess of the amounts budgeted.

State Construction Code Act:

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at October 1, 2003		\$ -
Current year building permit revenue		48,823
Related expenses:		
Direct costs	106,999	
Estimated indirect costs	•	
Total construction code expenses		 106,999
Cumulative surplus at September 30, 2004		\$ -

In accordance with the Act, no reservation of fund balance in the General Fund is required.

NOTE 3: DEPOSITS AND INVESTMENTS

The City's deposits and investments at September 30, 2004 are included in the statement of net assets under the following categories:

	vernmental Activities	isiness-type Activities		tal Primary overnment	Co	mponent <u>Units</u>
Cash and cash equivalents	\$ 1,633,926	\$ 1,537,850	\$	3,171,776	\$	13,716
Investments	2,239,575	1,866,123		4,105,698		-
Restricted cash and cash equivalents	-	437,587		437,587		-
Restricted investments		 929,743	_	929,743		
	\$ 3,873,501	\$ 4,771,303	\$	8,644,804	\$	13,716

September 30, 2004

Deposits:

The breakdown between deposits and investments for the City is as follows:

	<u>G</u>	Primary overnment	Co	omponent <u>Units</u>
Bank deposits (checking accounts, savings accounts,	c	2 (05 022	Œ.	12.717
and certificates of deposit)	\$	3,605,923	\$	13,716
Investments in bonds, mutual funds, and similar vehicles		5,035,441		-
Petty cash and cash on hand		3,440		
Total	\$	8,644,804	\$	13,716

The deposits of the primary government and component units were reflected in the accounts of financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) at \$3,833,284, of which \$204,633 is covered by federal depository insurance and the remainder was uninsured and uncollaterized. The City believes that due to the dollar amount of cash deposits and the limits of the FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk each institution; only those institutions with an acceptable estimated risk level are used as depositories. To the extent that cash from various funds has been pooled, related investment income is allocated to each fund based on relative participation in the pool.

Investments:

State statutes authorize the City to invest surplus funds in certificates of deposit, savings accounts and deposit accounts with banks and savings and loan associations which are members of FDIC, credit unions which are insured by NCUA, bonds, bills or notes of the U.S., commercial paper rated within the 3 highest classifications established, U.S. or federal agency obligation repurchase agreements, bankers' acceptances and mutual funds composed entirely of the aforementioned investments that are legal for direct investment by a City.

Investments are categorized into these three categories of credit risk:

Category 1 – Insured or registered, or securities held by the City or its agent in the City's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

September 30, 2004

At year end, the City's investment balances were categorized as follows:

	Category					Reported	
		1	2		3	Amount (Fair Value)	
Primary government:							
Bonds:							
Federal Home Loan Mortgage Corp.	\$	-	\$ 1,165,347	\$	-	\$ 1,165,347	
Federal Home Loan Bank		-	1,627,188		-	1,627,188	
Federal National Mortgage Association		-	1,260,497		-	1,260,497	
Investments not subject to categorization:							
Negotiable Certificates of Deposit Fund with MBS						982,409	
Total investments						\$ 5,035,441	

NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

Electric Fund Reserves:

The City Charter requires the establishment of an Electric Fund reserve in an amount equal to 20% of the replacement cost of the City's Electric Utility Fund's property and equipment. No appraisal of replacement cost for property and equipment was performed for the year ended September 30, 2004. The reserve account balance established by the Electric Utility Fund for improvements and replacements amounting to \$1,107,330, therefore, represents 20% of the estimated replacement cost for property and equipment. This was determined by utilizing the September 30, 1993 appraisal adjusted for the average annual Consumer Price Index increases.

Sewer Fund Reserves:

The authorizing ordinance for the 2000 Water and Sewer Supply System Revenue Bonds required the establishment and maintenance of various reserve accounts as follows:

Receiving Account – All receipts are initially deposited into this account.

Operation and Maintenance Account – Quarterly transfers are to be made to cover upcoming operating expenses.

Bond and Interest Redemption Account – Quarterly transfers are to be made equal to ½ of the next interest payment due plus ¼ of the next principal payment due.

Bond Reserve Account – From the proceeds of the Series 2000 Bonds there shall be an amount set aside which is the lesser of: (1) maximum debt service due in any year; (2) 125% of the average annual debt service; or (3) 10% of the principal amount of the bonds.

September 30, 2004

At September 30, 2004 the City had established these accounts and had restricted cash as follows:

		Requirements						Amount Funded			
							Restric			cted	
							C	ash and			
	C	October 1,			Se	ptember 30,		Cash			
		<u>2003</u>	<u>A</u> 0	<u>iditions</u>		<u>2004</u>	Eg	uivalents	Inv	<u>estments</u>	
Sewer Fund:			,								
Bond Reserve	\$	69,277	\$	3,037	\$	72,314	\$	110,000	\$	-	
Bond and Interest Redemption		169,661		-		169,661		_		150,000	
	\$	238,938	\$	3,037	\$	241,975	<u>\$</u>	110,000	<u>\$</u>	150,000	
Electric Fund:											
Replacement of Capital Assets	\$	1,105,170	\$	2,160	<u>\$</u>	1,107,330	\$	327,587	\$	779,743	

The required minimum amount for the bond reserve is the maximum debt service due in any year.

NOTE 5: CAPITAL ASSETS

Capital assets activity of the City's governmental and business-type activities was as follows:

	(Balance October 1,			D	isposals and	Sej	Balance ptember 30,
		2003	A	dditions	Adjustments		2004	
Governmental Activities:								
Capital assets not being depreciated:								
Land	\$	2,721,034	\$	-	\$	22,131	\$	2,698,903
Capital assets being depreciated:								
Buildings and improvements		2,022,343		25,989		6,200		2,042,132
Land improvements		97,800		-		-		97,800
Vehicles		1,810,642		96,154		94,651		1,812,145
Machinery and equipment		897,574		362,003		19,726		1,239,851
Furniture and equipment		197,861				-		197,861
Total capital assets being depreciated		5,026,220		484,146		120,577		5,389,789
Accumulated depreciation	_	2,142,614	_	339,213		120,577		2,361,250
Net capital assets being depreciated		2,883,606		144,933		<u>-</u>		3,028,539
Net Governmental Activities capital assets	\$	5,604,640	\$	144,933	\$	22,131	\$	5,727,442

September 30, 2004

	Balance October 1, 2003	October 1,		Balance September 30, 2004	
Business-type Activities:					
Sewer Fund capital assets:					
Capital assets not being depreciated					
Land	\$ 47,710	\$ -	\$ -	\$ 47,710	
Capital assets being depreciated	•				
Buildings and improvements	4,719,772	43,130	-	4,762,902	
Utility system	2,704,380	174,687	-	2,879,067	
Machinery and equipment	178,825		_	178,825	
Total capital assets being depreciated	7,602,977	217,817	-	7,820,794	
Accumulated depreciation	3,634,086	121,773	~-	3,755,859	
Net capital assets being depreciated	3,968,891	96,044		4,064,935	
Net Sewer Fund capital assets	4,016,601	96,044	_	4,112,645	
Water Fund capital assets:					
Capital assets not being depreciated					
Land	1,966	-	-	1,966	
Capital assets being depreciated					
Buildings and improvements	796,875	-	-	796,875	
Utility system	2,480,057	71,276	-	2,551,333	
Machinery and equipment	36,460		_	36,460	
Total capital assets being depreciated	3,313,392	71,276	-	3,384,668	
Accumulated depreciation	1,312,073	62,071	•	1,374,144	
Net capital assets being depreciated	2,001,319	9,205	-	2,010,524	
Net Water Fund capital assets	2,003,285	9,205		2,012,490	
Net Sewer and Water Funds capital assets	\$ 6,019,886	\$ 105,249	\$ -	\$ 6,125,135	

September 30, 2004

	Balance October 1, 2003	Additions	Disposals and Adjustments	Balance September 30, 2004
Business-type Activities (continued):				
Electric Fund capital assets:				
Capital assets not being depreciated				
Land	\$ 16,775	\$ -	\$ -	\$ 16,775
Capital assets being depreciated				
Buildings and improvements	149,397	-	-	149,397
Utility system	4,200,610	170,979	-	4,371,589
Machinery and other equipment	182,867	-	**	182,867
Total capital assets being depreciated	4,532,874	170,979	-	4,703,853
Accumulated depreciation	2,129,596	150,127		2,279,723
Net capital assets being depreciated	2,403,278	20,852	-	2,424,130
Net Electric Fund capital assets	2,420,053	20,852	-	2,440,905
Nonmajor Enterprise Fund capital assets:				
Capital assets being depreciated				
Furniture and equipment	7,893	-	-	7,893
Vehicles	146,637			146,637
Total capital assets being depreciated	154,530	-	-	154,530
Accumulated depreciation	71,763	26,128		97,891
Net capital assets being depreciated	82,767	(26,128)	-	56,639
Net Nonmajor Enterprise Fund capital assets	82,767	(26,128)	-	56,639
Net Business-type Activities capital assets	\$ 8,522,706	\$ 99,973	\$ -	\$ 8,622,679

September 30, 2004

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:	
General government	\$ 32,480
Public safety	82,939
Public works	218,721
Recreation and culture	 5,073
Total Governmental Activities	\$ 339,213
Business-type Activities:	
Sewer	\$ 121,773
Water	62,071
Electric	150,127
Nonmajor Enterprise - DART	 26,128
Total Business-type Activities	\$ 360,099

NOTE 6: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Un	<u>available</u>	1	Unearned		
Primary Government:						
Loans	\$	481,436	\$	-		
Grant, program income, and general revenue payments received prior to meeting all						
eligibility requirements	****	37,419		1,431,426		
Total	\$	518,855	\$	1,431,426		
Component Units:						
Grant, program income, and general revenue payments received prior to meeting all						
eligibility requirements	\$	<u></u>	\$	56,927		

September 30, 2004

NOTE 7: LONG-TERM LIABILITIES

The City issues bonds and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities:						
General Obligation Limited Tax Bond -						
1997 Building Authority Bonds						
Amount of Issue - \$1,600,000						
Maturing through August 2017	4.6-5.4%	\$65,000-130,000	\$ 1,285,000	\$ (65,000)	\$ 1,220,000	\$ 65,000
2000 Installment Purchase - Land						
Amount of Issue - \$500,000						
Maturing through December 2015	7.00%	25,425-49,642	423,734	(25,235)	398,499	27,002
2001 Promissory Note - Land Contract						
Amount of Issue - \$800,000						
Maturing through December 2029	8.00%	7,776-69,580	800,000	-	800,000	7,776
2001 Promissory Note - Land Contract						
Amount of Issue - \$50,000						
Maturing through February 2005	6.00%	16,667	33,333	(16,667)	16,666	16,666
2001 Michigan Strategic Grant/Loan						
Amount of Issue - \$448,000						
Maturing through August 2015	6.00%	27,962-50,724	448,000	(26,345)	421,655	27,962
Compensated absences			390,770	16,352	407,122	
Total Governmental Activities			3,380,837	(116,895)	3,263,942	144,406

September 30, 2004

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Business-type Activities: 2000 Water and Sewer Revenue Bonds-						
Water Supply (33.3487%)						
Sewage Disposal (66.6513%)						
Amount of Issue - \$1,955,000						
Maturing through December 2020	4.75-5.65%	\$65,000-165,000	\$ 1,845,000	\$ (60,000)	\$ 1,785,000	\$ 65,000
Compensated absences			171,249	21,818	193,067	-
Total Business-type Activities			2,016,249	(38,182)	1,978,067	65,000
Total Governmental and						
Business-type Activities			\$ 5,397,086	\$ (155,077)	\$ 5,242,009	\$ 209,406
Component Units:						
1994 Downtown Development						
General Obligation Bond						
Amount of Issue - \$620,000						
Maturing through November 2010	5.45-6.00%	\$45,000-65,000	\$ 370,000	\$ (45,000)	\$ 325,000	\$ 45,000
1997 Downtown Development						
Limited Tax General Obligation Bond						
Amount of Issue - \$510,000 Maturing through May 2010	5.35-5.80%	40 000 55 000	335 000	(40,000)	395 000	40.000
Maturing through May 2010	3.33-3.80%	40,000-55,000	325,000	(40,000)	285,000	40,000
Compensated absences			18,550	556	19,106	
Total Component Units			\$ 713,550	\$ (84,444)	\$ 629,106	\$ 85,000

Annual debt service requirements to maturity for the above bond and contractual obligations are as follows:

September 30, 2004

Primary	Government	i

	Primary Government													
Year Ended	Governmental Activities							Business-type Activities						
September 30,	Principal		Interest		<u>Total</u>		Principal		Interest		Total			
2005	\$	144,406	\$	178,503	\$	322,909	\$	65,000	\$	92,698	\$	157,698		
2006		139,688		169,938		309,626		65,000		89,561		154,561		
2007		149,455		161,726		311,181		70,000		86,288		156,288		
2008		154,551		152,993		307,544		75,000		82,753		157,753		
2009		165,000		143,707		308,707		80,000		78,935		158,935		
2010-2014		1,005,936		553,523		1,559,459		475,000		327,206		802,206		
2015-2019		580,634		270,404		851,038		635,000		181,814		816,814		
2020-2024		200,362		170,110		370,472		320,000		18,362		338,362		
2025-2029		298,508		71,964		370,472		-		-		-		
2030		18,280		244	_	18,524				-		-		
	<u>\$</u>	2,856,820	\$	1,873,112	<u>\$</u>	4,729,932	<u>\$</u>	1,785,000	<u>\$</u>	957,617	\$	2,742,617		
V FII		Total	D~:	mary Carra		on4			٠	manant IIn:	4			

Year Ended		Total Primary Government						Component Units						
September 30,	<u>F</u>	Principal		Interest	_	Total		Principal		Interest		Total		
2005	\$	209,406	\$	271,201	\$	480,607	\$	85,000	\$	33,531	\$	118,531		
2006		204,688		259,499		464,187		95,000		28,720		123,720		
2007		219,455		248,014		467,469		95,000		23,440		118,440		
2008		229,551		235,746		465,297		105,000		17,919		122,919		
2009		245,000		222,642		467,642		110,000		11,725		121,725		
2010-2014		1,480,936		880,729		2,361,665		120,000		5,140		125,140		
2015-2019		1,215,634		452,218		1,667,852		-				-		
2020-2024		520,362		188,472		708,834		-		-		-		
2025-2029		298,508		71,964		370,472		-		-		-		
2030		18,280		244		18,524						-		
	\$	4,641,820	\$	2,830,729	\$	7,472,549	\$	610,000	\$	120,475	\$	730,475		

September 30, 2004

NOTE 8: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the City's governmental and business-type activities in the aggregate are as follows:

		Primary G	over	nment		
	_	overnmental	В	usiness-type	C	omponent
		Activities		Activities		Units
Receivables:						
Property taxes	\$	183,137	\$	-	\$	-
Accounts		67,446		1,446,805		5,000
Notes		494,918		-		68,615
Interest		21,034		30,061		-
Intergovernmental		247,094		3,016		-
Due from primary government		_		-		56,927
Advance to component unit		84,050		285,066		-
Total receivables	\$	1,097,679	\$	1,764,948	\$	130,542
Accounts payable and accrued expenses:						
Checks written in excess of deposits	\$	146,147	\$	-	\$	_
Accounts		96,959		507,374		677
Payroll and related liabilities		22,415		11,657		455
Interest		36,816		31,619		13,971
Intergovernmental		57		967		, -
Due to component unit		56,927		-		-
Deposits payable		1,640		82,261		-
Other		-		6,925		_
Advance from primary government				-		369,116
Total accounts payable and accrued expenses	\$	360,961	\$	640,803	\$	384,219

September 30, 2004

NOTE 9: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at September 30, 2004 is as follows reported in the fund financial statements:

		Due From													
Due To	Major Street		Nonmajor Governmental		Sewer		Water		Electric		Total				
General Fund	\$	-	\$	8,133	\$	_	\$	_	\$	_	\$	8,133			
Local Street	Ψ	323	Ψ	-	Ψ	-	•	-	Ψ	-	Ψ	323			
Nonmajor Governmental															
Debt service		-		27,949		7,893		2,782		26,073		64,697			
Streetscape Maintenance		-		-		-				110,000		110,000			
Sewer		-		-		-		-		6,079		6,079			
Water				-		-	4.00			68,818		68,818			
	\$	323	\$	36,082	\$	7,893	\$	2,782	<u>\$</u>	210,970	<u>\$</u>	258,050			

The composition of interfund receivable and payable balances at September 30, 2004 is as follows reported in the government-wide financial statements:

	Due From										
		ernmental ctivities		siness-type Activities	Total						
Due To											
Governmental Activities	\$	36,405	\$	146,748		183,153					
Business-type Activities		_		74,897		74,897					
	\$	36,405	\$	221,645	<u>\$</u>	258,050					

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year. The balance of \$110,000 due to the nonmajor governmental fund streetscape from the electric fund is for a project to begin subsequent to year end. All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

September 30, 2004

Interfund transfers reported in the fund statements were as follows:

			 		Tra	nsfe	er from						
		neral und	ajor and al Streets	S	ewer		Vater_	Ele	ectric		All thers	Co	omponent Units
Transfer To													
Local Street	\$	-	\$ 37,000	\$	-	\$	-	\$	-	\$	-	\$	+
Nonmajor Governmental													
Streetscape Maint.		-	· -		-		-	11	0,000		-		-
Police Athetic League		-	-		-		-	2	5,583		-		-
Municipal Facilities	:	55,898	-		-		-	5	0,000		5,000		-
Debt Service		-	-	1	5,786		5,564	5	2,145	5	5,898		-
Sewer		-	55,048		-		-		-	4	1,522		-
Water		-	-		-		-	4	5,000		-		-
Electric		-	-		-		-		-	1	3,701		27,071
Internal Service	:	20,890	1,013		5,898		2,991		7,001	5	8,180		221
Component Units - DDA			 -		-	-		7	7,000			_	
		76,788	 93,061	2	21,684		8,555	36	6,729	17	4,301		27,292
Total												<u>\$</u>	768,410

Interfund transfers reported in the government-wide statements were as follows:

	Transfer From									
		siness-type Activities		ponent Inits						
Transfer To										
Governmental Activities	\$	165,413	\$	221						
Component Units		49,929		-						
	\$	215,342	\$	221						

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

September 30, 2004

NOTE 10: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City manages its general liability, property, and auto risk/insurance by participating in Michigan Municipal Risk Management Authority, a public entity risk pool providing insurance coverage to its participating members. The City pays premiums to the Authority for its insurance coverage. The Michigan Municipal Risk Management Authority is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk/insurance by participating in the Michigan Municipal League (MML), a public entity pool providing insurance coverage to its participating members. The City pays premiums to MML for the insurance coverage. The MML is self-sustaining through member premiums. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City obtains its other insurance coverage through a commercial insurance company.

NOTE 11: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System):

Plan Description – The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's management and personnel policy. The required employee contribution rates and the City's actuarially determined rates for the fiscal year ended September 30, 2004 were as follows:

September 30, 2004

Valuation		Employer Contribution	Employee Contribution
Division	Provision	Rate	Rate
General - Non-Union	B-2	5.10%	6.89%
Police	B-4	5.61%	8.65%
Fire	B-4.	8.48%	9.17%
General Public Work	B-3	12.66%	5.67%
Department Heads	B-4	12.28%	6.51%
Police Sergeants	B-4	14.15%	8.20%

Annual Pension Costs – For year ended December 31, 2003, the City's annual pension cost of \$275,171 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. All are determined using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized at a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of September 30, follows:

	 2003	 2002	 2001
Annual pension cost	\$ 275,171	\$ 228,005	\$ 210,987
Percentage of APC contributed	100%	100%	100%
Net pension obligation	_	_	_

Post Employment Benefits:

The City has established a postemployment hospitalization insurance plan for employees retiring after October 1, 1984 who: (a) receive benefits under the City Retirement Plan; or (b) have attained age sixty (60) years but do not qualify to receive benefits under the City Retirement Plan although they have been employed by the City for a minimum of five (5) years. The plan currently covers 76 active employees and 14 retired employees.

The obligation to pay postemployment hospitalization insurance premium was established by the City Council. The obligation requires that the City reimburse any eligible employee an amount equal to 50% of any premium attributable to the employee only or up to a maximum of \$200 per month.

The City has chosen to advance-fund this obligation based on an actuarial valuation at October 1, 2001 (latest available report). Significant actuarial assumptions used include: (a) a rate of return on investment of 8% per year compounded annually, (b) projected salary increases of 4.5% per year, and (c) projected insurance premium costs of \$200 per month per eligible person.

September 30, 2004

The required contribution for the year ended September 30, 2004 is \$49,817 and a contribution of \$49,817 has been made by the City.

The amount of net assets available at September 30, 2004 is \$201,672. The amount of unfunded accrued liability at September 30, 2004, including the employee's share of the premium cost, is estimated to be approximately \$640,500 based on the latest available actuarial valuation (as of October 1, 2001).

Deferred Compensation Plan:

The employees of the City are allowed to contribute on a voluntary basis to a deferred compensation plan through payroll deductions. The plan is made available to all eligible employees by authority of Section 457 of the Internal Revenue Code (IRC), and is administered by ICMA Retirement Corporation. Employees may set aside and invest portions of their current income to meet their financial requirements and supplement their retirement and social security benefits.

NOTE 12: SELF-INSURANCE PROGRAM

During the year 1994-95 the City established a self-insurance internal service fund for its employee health and dental insurance programs. The program was administered by Blue Cross-Blue Shield. Effective July 1, 2001 the program was terminated. The City currently has a regular Blue Cross program.

As of September 30, 2004 Blue Cross-Blue Shield is holding a City cash reserve balance of \$9,117. The reserve is estimated to be adequate to cover any remaining incurred but not reported claims (IBNR) as of September 30, 2004. Excess reserves may be returned to the City. The amount of excess is indeterminable and accordingly has not been recognized as a receivable by the City.

NOTE 13: FUND EQUITY

Specific reservations on fund equity include:

Reserved for prepaid expenditures – This reserve was created to indicate that the portion of fund balance represented by prepaid expenditures is not available for appropriation.

Reserved for nonexpendable cemetery principal – This reserve was created to indicate that portion of fund balance representing the nonexpendable principal portion required to be retained in perpetuity for cemetery care.

September 30, 2004

Specific designations on fund equity include:

Designated for Rudolphi Wildlife – This designation was created to indicate funds contributed to cover payment of associated expenditures.

Designated for COPS – This designation was created to indicate funds contributed to cover payment of associated expenditures.

Designated for Girl Power – This designation was created to indicate funds contributed to cover payment of associated expenditures.

Designated for Justice Training – This designation was created to indicate funds contributed to cover payment of associated expenditures.

NOTE 14: COMPONENT UNITS REPORTING

A condensed statement of net assets for each of the discretely presented component units is shown below. The statement of activities is presented in the government-wide financial statements.

	Local Development Finance <u>Authority</u>	Downtown Development <u>Authority</u>	Total Component <u>Units</u>
Assets:	£ 2.127	6 11.570	6 12.716
Cash and cash equivalents	\$ 2,137	\$ 11,579	\$ 13,716
Receivables	15,205	115,337	130,542
Prepaid expenditures and other items	480,831	1,105	481,936
Total assets	498,173	128,021	626,194
Liabilities:			
Accounts payable and accrued expenses	369,116	15,103	384,219
Deferred revenue	15,205	41,722	56,927
Long-term liabilities:			ŕ
Due within one year	_	85,000	85,000
Due in more than one year		544,106	544,106
Total liabilities	384,321	685,931	1,070,252
Net assets:			
Unrestricted	\$ 113,852	\$ (557,910)	\$ (444,058)

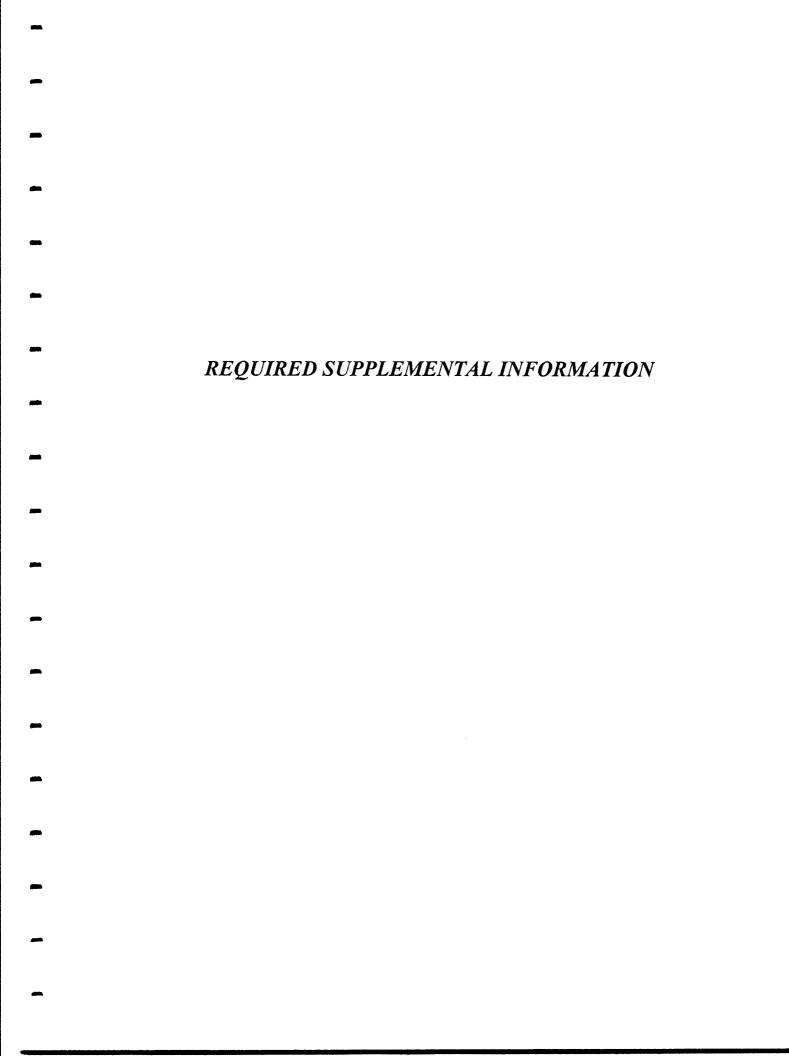
September 30, 2004

NOTE 15: PRIOR PERIOD ADJUSTMENTS

Correction of an Error:

In the prior year, the amount of the liability for accumulated sick hours in the enterprise funds and internal service fund was recorded in the general long-term debt account group. The effect on the beginning net assets of the funds is as follows:

		Internal Service Fund			
	Sewer	<u>Water</u>	Electric	Nonmajor	Motor Pool Equipment
Net assets, beginning of year, as previously stated	\$ 5,334,558	\$ 1,687,063	\$ 5,720,312	\$ 311,609	\$ 1,915,272
Prior period adjustment to recognize accumulated sick hours as a liability	(32,972)	(11,365)	(72,126)	(16,693)	(13,016)
Net assets, beginning of year, as restated	\$ 5,301,586	\$ 1,675,698	\$ 5,648,186	\$ 294,916	\$ 1,902,256



SCHEDULE OF PENSION PLAN FUNDING PROGRESS

Actuarial Valuation Date	12/31/2003	12/31/2003 12/31/2002	
Actuarial Value of Assets	\$ 6,682,270	\$ 6,013,592	\$ 5,645,830
Actuarial Accrued Liability (AAL)	10,233,293	9,070,524	8,215,448
Unfunded AAL (UAAL)	3,551,023	3,056,932	2,569,618
Funded Ratio	65%	66%	69%
Covered Payroll	2,676,218	2,668,436	2,632,263
UAAL as a percentage of covered payroll	133%	115%	98%

BUDGETARY COMPARISON SCHEDULE

	Budgete	d Amounts		Actual Over (Under)	
	Original	Final	Actual	Final Budget	
Revenues:					
Property taxes	\$ 1,527,074	\$ 1,512,257	\$ 1,512,938	\$ 681	
Licenses and permits	119,240	119,519	119,608	89	
Federal grants	-	100,748	100,749	1	
State grants	865,905	791,264	786,748	(4,516)	
Contributions from other units	59,987	64,111	64,150	39	
Charges for services	501,042	542,810	542,950	140	
Fines and forfeits	11,100		7,350	(250)	
Interest and rents	49,200		61,697	(7,988)	
Other revenue	81,900	85,800	91,488	5,688	
Total revenues	3,215,448	3,293,794	3,287,678	(6,116)	
Expenditures:					
Current:	222.622	020 477	020.260	(0.200)	
General government	890,620	-	930,268	(9,208)	
Public safety	1,380,349		1,354,753	(933)	
Public works	52,504		42,318	(6,846)	
Other	789,277		756,331	2,794	
Capital outlay	6,800	111,478	117,491	6,013	
Total expenditures	3,119,550	3,209,341	3,201,161	(8,180)	
Excess (deficiency) of revenues over expenditures	95,898	84,453	86,517	2,064	
Other financing sources (uses) Transfers out	(95,898)(76,788)	(76,788)	
Total other financing sources (uses)	(95,898	(76,788)	(76,788	·	
Net change in fund balance	-	7,665	9,729	2,064	
Fund balance, beginning of year	678,200	678,200	678,200		
Fund balance, end of year	\$ 678,200	\$ 685,865	\$ 687,929	\$ 2,064	

SPECIAL REVENUE FUND - MAJOR STREET FUND

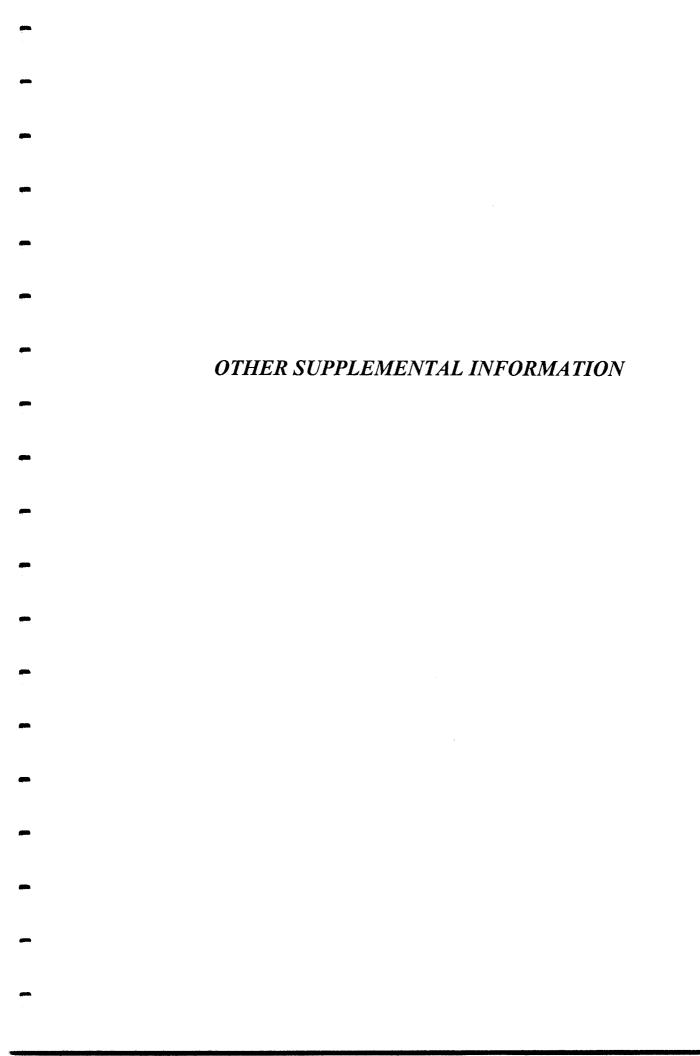
BUDGETARY COMPARISON SCHEDULE

		Budgeted	An	ounts			Actual r (Under)
	_(Original		Final		Actual	l Budget
Revenues:							
State grants	\$	345,447	\$	369,447	\$	378,682	\$ 9,235
Interest and rents		1,500		4,800		1,066	(3,734)
Other revenue		-		2,000		75	 (1,925)
Total revenues		346,947		376,247		379,823	 3,576
Expenditures: Current:							
Public works		162,905		395,914	_	345,822	 (50,092)
Total expenditures		162,905		395,914		345,822	 (50,092)
Excess (deficiency) of							
revenues over expenditures		184,042		(19,667)		34,001	 53,668
Other financing sources (uses):							
Transfers out		(92,548)		(92,537)		(92,537)	
Total other financing sources (uses)		(92,548)		(92,537)		(92,537)	
Net change in fund balance		91,494		(112,204)		(58,536)	53,668
Fund balance, beginning of year		255,534		255,534		255,534	 -
Fund balance, end of year	\$	347,028	\$	143,330	\$	196,998	\$ 53,668

SPECIAL REVENUE FUND – LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

		Budgeted	An	ounts			Actual er (Under)
		Original		Final		Actual	al Budget
Revenues:							
State grants	\$	143,961	\$	138,411	\$	143,440	\$ 5,029
Interest and rents		1,500		1,100		(157)	(1,257)
Other revenue		-				142	 142
Total revenues	<u></u>	145,461		139,511		143,425	 3,914
Expenditures:							
Current:							
Public works	-	191,199	_	198,996		175,926	 (23,070)
Total expenditures		191,199	_	198,996		175,926	 (23,070)
Excess (deficiency) of							
revenues over expenditures		(45,738)		(59,485)	_	(32,501)	 26,984
Other financing sources (uses):							
Transfers in		52,500		37,000		37,000	-
Transfers out				(524)		(524)	 -
Total other financing sources (uses)		52,500		36,476		36,476	 •
Net change in fund balance		6,762		(23,009)		3,975	26,984
Fund balance, beginning of year		34,705		34,705		34,705	 •
Fund balance, end of year	\$	41,467	\$	11,696	\$	38,680	\$ 26,984



DETAILED SCHEDULE OF REVENUES

Revenues:	
Current taxes:	
Property taxes	\$ 1,204,409
Penalties and interest on taxes	15,661
Administration fees	43,989
Payment in lieu of taxes	248,879
	1,512,938
Licenses and permits:	
Business licenses and permits	640
Nonbusiness licenses and permits	58,879
CATV franchise fees	60,089
	119,608
Federal grants:	
Police	6,538
FEMA	94,211
	100,749
State grants:	
Liquor license fees	4,617
State revenue sharing - sales tax	779,034
Police grant	3,097
ronce grant	786,748
Contailed on Contailed on the	
Contribution from other units:	60.500
Fire protection fees	62,739
Reimbursement from school district - Cops in Schools	1,411
	64,150
Charges for services:	
Recreation fees	43,483
Cemetery fees	32,901
Police services and reports	23,376
Airport fees	12,689
Administrative charges to component units	8,140
Administrative charges to other funds	422,361
	542,950
Fines and forfeitures:	
Ordinance fines	455
Other	6,895
	7,350

DETAILED SCHEDULE OF REVENUES, CONTINUED

Revenues,	continued:
-----------	------------

Interest	and	rante.
IIIIEIEN	unu	I EILLS.

Interest	\$ 42,212
Rents	19,485
	61,697
Other revenue:	
Special assessments	76
Cemetery lots/perpetual care	9,494
Contributions and donations	14,493
Loan repayments	47,500
Other	19,925
	91,488
Total revenues	\$ 3,287,678

DETAILED SCHEDULE OF EXPENDITURES

Expenditures:	
General Government: Council:	
Personnel	\$ 7,412
Dues and memberships	1,545
Education and training	4,642
Other	3,709
Culci	17,308
Manager:	
Personnel	170,227
Fringe benefits	22,285
Supplies	1,081
Contracted services	1,011
Telephone	510
Dues and memberships	1,922
Education and training	5,686
Other	1,050
	203,772
Accounting/Finance/Treasurer:	
Personnel	197,955
Supplies	526
Contracted services	16,153
Dues and memberships	84
Education and training	1,667
Equipment rental	900
Other	521
	217,806
Clerk:	
Personnel	74,547
Supplies	943
Contracted services	1,389
Dues and memberships	549
Education and training	2,265
Printing and publications	5,412
Other	2,634
	87,739

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

General Government, continued: Assessor: Personnel \$ 12,087 Supplies 352 Contracted services 30,286 Telephone 314 Dues and memberships 105 Education and training 136 43,280 Elections: \$ 5,006 Supplies 1,445 Printing and publications 128 Repairs and maintenance 294 6,873 6,873 Buildings and Grounds: 147,891 Personnel 147,891 Supplies 40,560
Personnel \$ 12,087 Supplies 352 Contracted services 30,286 Telephone 314 Dues and memberships 105 Education and training 136 Elections: Personnel 5,006 Supplies 1,445 Printing and publications 128 Repairs and maintenance 294 6,873 Buildings and Grounds: 147,891 Personnel 147,891
Supplies 352 Contracted services 30,286 Telephone 314 Dues and memberships 105 Education and training 136 Elections: Personnel 5,006 Supplies 1,445 Printing and publications 128 Repairs and maintenance 294 Buildings and Grounds: 294 Personnel 147,891
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Telephone 314 Dues and memberships 105 Education and training 136 Elections: Personnel 5,006 Supplies 1,445 Printing and publications 128 Repairs and maintenance 294 6,873 6,873 Buildings and Grounds: 147,891
Dues and memberships 105 Education and training 136 43,280 43,280 Elections: 5,006 Supplies 1,445 Printing and publications 128 Repairs and maintenance 294 6,873 6,873 Buildings and Grounds: 147,891
Education and training 136 43,280 Elections: Personnel 5,006 Supplies 1,445 Printing and publications 128 Repairs and maintenance 294 6,873 Buildings and Grounds: Personnel 147,891
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Elections:Personnel5,006Supplies1,445Printing and publications128Repairs and maintenance2946,8736,873Buildings and Grounds:147,891
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Repairs and maintenance 294 6,873 Buildings and Grounds: Personnel 147,891
Buildings and Grounds: Personnel 147,891
Buildings and Grounds: Personnel 147,891
Personnel 147,891
,
Supplies 40,560
Contracted services 39,814
Telephone 5,904
Education and training 227
Utilities 34,762
Repairs and maintenance 15,736
Equipment rental 31,510
Other656
317,060
Attorney:
Contracted services 36,430
36,430
Total general government 930,268
Public Safety:
Police:
Personnel 787,956
Supplies 29,100
Contracted services 7,391
Telephone 10,091
Education and training 15,852
Printing and publications 1,086
Equipment rental 46,852
Other 1,307
899,635

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Expenditures, continued:	
Public Safety, continued.:	
Fire:	
Personnel	\$ 221,025
Supplies	6,269
Telephone	1,622
Education and training	3,961
Utilities	12,093
Repairs and maintenance	7,157
Equipment rental	65,735
Other	1,414
	319,276
Protective Inspection and Regulation:	
Personnel	84,680
Supplies	1,651
Contracted services	36,840
Telephone	1,451
Dues and memberships	1,016
Education and training	3,007
Printing and publications	46
Repairs and maintenance	662
Equipment rental	5,789
Other	700
	135,842
Total public safety	1,354,753
Public Works:	
Sidewalks:	
Personnel	1,772
Repairs and maintenance	6,710
·	8,482
Airport:	MULTI-CONTROL MANAGEMENT AND ADMINISTRATION OF THE PROPERTY OF
Personnel	5,902
Supplies	10,250
Contracted services	5,345
Telephone	994
Insurance	7,850
Utilities	3,060
Other	435
	33,836
Total public works	42,318

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Expenditures, continued:	
Other:	
Insurance	\$ 50,722
Employee benefits	449,185
Retirement	127,787
Payroll taxes	128,637
	756,331
Total other	756,331
Capital Outlay:	
General government	1,698
Public safety	109,924
Public works	5,869
	117,491
Total expenditures	3,201,161
Other Financing Uses:	
Transfers to other funds	76,788
	76,788
Total expenditures and other financing uses	\$ 3,277,949

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

September 30, 2004

	Special Revenue Funds								
	_	Parks Fund		Sidewalk Replacement Fund		Solid Waste Disposal Fund		Industrial Development Fund	
Assets: Cash and cash equivalents	\$	10,675	\$	15,915	\$	-	\$	12,908	
Investments	•	-	•	-	•	47,255	•	-	
Accounts receivable		-		-		'-		-	
Notes receivable		-		-		-		130,096	
Interest receivable		-		-		539		-	
Due from other governmental units		-		-		-		-	
Due from other funds		-		-				-	
Prepaid expenditures		-		-		1,837		-	
Land held for development		-		-		-		-	
Advance to component unit		-						84,050	
Total assets	\$	10,675	\$	15,915	\$	49,631	\$	227,054	
Liabilities and Fund Balances: Liabilities:	ď		6		\$	50	¢.		
Checks written in excess of deposits	\$	-	\$	-	Э	59 698	\$	-	
Accounts payable and accrued expenses Due to other funds		_		_		070		_	
Deposits payable		_		_		_		-	
Deferred revenue		_		_		_		130,096	
Deferred revenue			********					150,050	
Total liabilities			*			757		130,096	
Fund balances:									
Reserved for: Prepaid expenditures						1,837			
Nonexpendable cemetery principal		_		_		1,037		-	
Unreserved:									
Designated, reported in:									
Special revenue funds		-		•		2,496		-	
Undesignated, reported in:									
Special revenue funds		10,675		15,915		44,541		96,958	
Debt service funds		•		-		-		-	
Capital projects funds				-					
Total fund balances		10,675		15,915		48,874		96,958	
Total liabilities and fund balances	\$	10,675	S	15,915	\$	49,631	\$	227,054	

	Special Revenue Funds												
League Mainen		reetscape linentance Fund	MSC Rehabilitation Loan Repayment Fund		MSHDA Housing Resource Fund		Municipal Facilities/ Improvements Fund		City Drug Forfeiture Fund		Subtotal Nonmajor Governmental Funds		
\$	300 	\$ 	6,364 - - - - 110,000 - - - - 116,364	\$ 	55,266 - - 77,249 - - - - - - - 132,515	\$ 	599 - - - - - - - - - - - - - - - - - -	\$ <u>\$</u>	10,204 374,158 - 274,091 2,883 - - - - - - 661,336	\$	2,415	\$ 	114,646 421,413 10,000 481,436 3,422 8,133 110,000 5,109 - 84,050
\$	6,626 1,398 8,133 - - 16,157	\$	- - - - -	\$	300 - - 77,249 77,549	\$ 	- - - - -	\$	26,356 27,949 1,300 274,091 329,696	\$		\$	6,685 28,752 36,082 1,300 481,436 554,255
	3,272		-		-		-		- -		<u>-</u> -		5,109 -
	-		-		-		-		-		-		2,496
	2,276 -		116,364		54,966		599 -		331,640		2,415		676,349
_	-		-						_		-	<u> </u>	
_	5,548		116,364		54,966		599		331,640		2,415	-	683,954
\$	21,705	\$	116,364	\$	132,515	\$	599	<u>\$</u>	661,336	\$	2,415	\$	1,238,209

continued

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET, CONTINUED

September 30, 2004

	Special Revenue Funds					Debt Service Fund		Capital Projects Fund	
	County Drug Forfeiture Fund			Depot Drive Fund		1997 Building Authority Bonds Fund		M-51 South Commercial Develoment Fund	
Assets: Cash and cash equivalents	\$	21,615	\$	32,896	\$	3,762	\$	17,287	
Investments	Ψ	-	•	-		-		•	
Accounts receivable		-		_		-		-	
Notes receivable		-		-		-		-	
Interest receivable		-		-		-		-	
Due from other governmental units		-		-		-		-	
Due from other funds		-		-		64,697		-	
Prepaid expenditures		-		227		-		-	
Land held for development		-		-		-		-	
Advance to component unit	•								
Total assets	\$	21,615	\$	33,123	\$	68,459	\$	17,287	
Liabilities and Fund Balances: Liabilities:									
Checks written in excess of deposits	\$	-	\$	-	\$	-	\$	-	
Accounts payable and accrued expenses		160		208		300		-	
Due to other funds		-		-		-		-	
Deposits payable		-		-		•		-	
Deterred revenue									
Total liabilities		160		208		300			
Fund balances:									
Reserved for:				227					
Prepaid expenditures		-		227		-		-	
Nonexpendable cemetery principal Unreserved:		-		-		-		_	
Designated, reported in:									
Special revenue funds		_		-		-		-	
Undesignated, reported in:									
Special revenue funds		21,455		32,688		-		-	
Debt service funds		-		-		68,159		-	
Capital projects funds		_		-		-		17,287	
Total fund balances	***	21,455		32,915		68,159		17,287	
Total liabilities and fund balances	\$	21,615	\$	33,123	\$	68,459	\$	17,287	
1 otal matrices and fand balances	*******		-						

	Permanent Fund		
	Cemetery Perpetual Care Fund		Total Nonmajor overnmental Funds
\$	115,007 535,204 - - 2,000 - - - 8,900	\$	305,213 956,617 10,000 481,436 5,422 8,133 174,697 5,336 8,900 84,050
\$	661,111	<u>\$</u>	2,039,804
\$ 	- - - - -	\$	6,685 29,420 36,082 1,300 481,436
	661,111		5,336 661,111 2,496
_			730,492 68,159 17,287
	661,111		1,484,881
<u>\$</u>	661,111	\$	2,039,804

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

	Special Revenue Funds								
	Parks Fund	Sidewalk Replacement Fund	Solid Waste Disposal Fund	Industrial Development Fund					
Revenues:	\$ - 5	ş -	\$ 113,091	\$ -					
Property taxes	.	-	-	85,709					
Federal grants	-	_	_	-					
State grants	-	_	-	+					
Charges for services	-	-	-	-					
Fines and forfeits	2	2	(24)						
Interest and rents	17,957	506		13,484					
Other revenue	17,937		112.067	102,291					
Total revenues	<u>17,959</u>	508	113,067	102,251					
Expenditures:		_	-	•					
General government	-	-	-	-					
Public safety	-	5,820	96,567	-					
Public works	-	5,0=0	· -	84,997					
Community and economic development	7,299	_	-	-					
Recreation and culture	7,299	_	-	-					
Capital outlay	-								
Debt service:		_	-	26,345					
Principal	-	_	-	90,295					
Interest and charges				201.627					
Total expenditures	7,299	5,820	96,56	201,637					
Excess (deficiency) of revenues over expenditures	10,660	(5,312	2)16,50	0 (99,346)					
Other financing sources (uses):			<u>.</u>	-					
Transfers in	-	- -	(17	·7)					
Transfers out	-								
Total other financing sources (uses)			(17						
Net change in fund balances	10,660	(5,31	2) 16,32						
Fund balances, beginning of year	15	21,22	32,5						
Fund balances, end of year	\$ 10,675	\$ 15,91	15 \$ 48,8	74 \$ 96,958					

Special	Revenue	Funds

Police Athletic Streetscape League Maintenance Fund Fund		Rehabilitation Loan Repayment Fund	MSHDA Housing Resource Fund	Municipal Facilities/ Improvements Fund	City Drug Forfeiture Fund	Subtotal Nonmajor Governmental Funds	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 113,091	
28,133	-	-	-	-	-	141,975	
-	-	-	78,473	-	-	78,473	
500	. •	-	-	-	-	500	
-		-	-	-	2,103	2,103	
83 27,999	(1) 1,635	736 66,756	26,062	23,919 1,629	-	27,815 156,028	
							
56,715	1,634	67,492	104,535	25,548	2,103	519,985	
-	-	•	_	-	-	-	
95,656	•	-	-	-	634	96,290	
-	1,736	-	-	155,973	-	260,096	
-	-	43,098	103,936	-	-	232,031	
-	-	-	-	-	-	7,299	
-	-	-	-	25,989	-	25,989	
-	-	-	-	16,667	-	43,012	
				2,000		92,295	
95,656	1,736	43,098	103,936	200,629	634	757,012	
(38,941)	(102)	24,394	599	(175,081)	1,469	(237,027)	
25,583	110,000	-	-	110,898 (55,898)	-	246,481 (56,075)	
25,583	110,000	-	_	55,000	-	190,406	
(13,358)	109,898	24,394	599	(120,081)	1,469	(124,296)	
18,906	6,466	30,572		451,721	946	758,708	
\$ 5,548	\$ 116,364	\$ 54,966	\$ 599	\$ 331,640	\$ 2,415	\$ 806,834	

continued

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES, CONTINUED

	Spec	Debt Service Fund		
	County Drug Forfeiture Fund	Library Fund	Depot Drive Fund	1997 Building Authority Bonds Fund
Revenues:				•
Property taxes	\$ -	\$ -	\$ -	\$ -
Federal grants	-	-	-	-
State grants	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeits	18,972	- 15	7 101	306
Interest and rents	- 105	15	7,101	
Other revenue	2,437		6,023	-
Total revenues	21,409	15	13,124	306
Expenditures:				
General government	-	-	-	-
Public safety	8,394	-	0.424	-
Public works	-	-	8,434	-
Community and economic development	-	-	-	-
Recreation and culture	-	256	-	•
Capital outlay	-	-	-	•
Debt service:				65,000
Principal	-	-	-	
Interest and charges	-		-	64,543
Total expenditures	8,394	256	8,434	129,543
Excess (deficiency) of				
revenues over expenditures	13,015	(241)	4,690	(129,237)
Other financing sources (uses):				129,393
Transfers in	-	-	(5,000)	129,373
Transfers out		-	(3,000)	
Total other financing sources (uses)	-		(5,000)	129,393
Net change in fund balances	13,015	(241)	(310)	156
Fund balances, beginning of year	8,440	241	33,225	68,003
Fund balances, end of year	\$ 21,455	<u> - </u>	\$ 32,915	\$ 68,159

Capital Projects Fund M-51 South Commercial Develoment Fund		Permanent Fund Cemetery Perpetual Care Fund		Total Nonmajor Governmental Funds
\$ -	\$		\$	113,091
-		-		113,842
-		-		78,473
-		-		500
-		-		21,075
(1)		17,832		53,068
127,392	-	12,401		304,281
127,391		30,233		684,330
		4		4
-		-		104,684
_		_		268,530
_		-		232,031
-		-		7,555
-		-		25,989
25,235		-		133,247
29,662		-		186,500
54,897		4		958,540
72,494		30,229		(274,210)
-		-		375,874
(55,223)				(116,298)
(55,223)				259,576
17,271		30,229		(14,634)
16		630,882		1,499,515
\$ 17,287	\$	661,111	<u>\$</u>	1,484,881

PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF NET ASSETS

September 30, 2004

	Motor Pool Equipment Fund	Computer Equipment Replacement Fund	Total Internal Service Funds
Assets:			
Current assets:			
Cash and cash equivalents	\$ -	\$ 92,739	\$ 92,739
Investments	560,327	-	560,327
Notes receivable	13,482	-	13,482
Interest receivable	7,564	-	7,564
Prepaid expenses	15,753	**	15,753
Total current assets	597,126	92,739	689,865
Noncurrent assets:			
Capital assets			
Depreciable capital assets, net	1,372,586		1,372,586
Total noncurrent assets	1,372,586		1,372,586
Total assets	1,969,712	92,739	2,062,451
Liabilities:			
Current liabilities:			
Checks written in excess of deposits	132,230	-	132,230
Accounts payable and accrued expenses	10,326	-	10,326
Compensated absences payable	4,172		4,172
Total current liabilities	146,728		146,728
Total liabilities	146,728	-	146,728
Net assets:			
Invested in capital assets, net of related debt	1,372,586	-	1,372,586
Unrestricted	450,398	92,739	543,137
Total net assets	\$ 1,822,984	\$ 92,739	\$ 1,915,723

PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Motor Pool Equipment Fund	Computer Equipment Replacement Fund	Total Internal Service Funds
Operating revenues:	\$ 473,589	\$ -	\$ 473,589
Equipment rental Other	4,971	230	5,201
Total operating revenues	478,560	230	478,790
Operating expenses			
Personnel	42,787	-	42,787
Fringe benefits	16,262	-	16,262
Supplies	53,095	-	53,095
Contracted services	21,860	3,685	25,545
Administrative expense	12,890	-	12,890
Insurance	34,145	-	34,145
Utilities	14,946	-	14,946
Repair and maintenance	77,395	-	77,395
Equipment rental	2,712	-	2,712
Other services and supplies	6,222	-	6,222
Depreciation	286,935		286,935
Total operating expenses	569,249	3,685	572,934
Operating income (loss)	(90,689)	(3,455)	(94,144)
Non-operating revenues (expenses):			
Interest income	17,981	-	17,981
Rental income	7,200	-	7,200
Gain on sale of assets	43,523		43,523
Total non-operating revenues (expenses)	68,704		68,704
Net income (loss) before operating transfers	(21,985)	(3,455)	(25,440)
Operating transfers:			
Transfer from other funds	-	96,194	96,194
Transfer to other funds	(57,287)	_	(57,287)
Total operating transfers	(57,287)	96,194	38,907
Net income (loss)	(79,272)	92,739	13,467
Net assets, beginning of year, as restated	1,902,256	_	1,902,256
Net assets, end of year	\$ 1,822,984	\$ 92,739	\$ 1,915,723

PROPRIETARY FUNDS

COMBINING STATEMENT OF CASH FLOWS

	Motor Pool Equipment Fund	Computer Equipment Replacement Fund	Total Internal Service Funds
Cash flows from operating activities:			
Cash payments to employees	\$ (51,631)		\$ (51,631)
Cash payments to suppliers for goods and services	(119,287)	(3,685)	(122,972)
Cash received for interfund services	479,049 11,882	230	479,049 12,112
Other receipts			
Net cash provided (used) by operating activities	320,013	(3,455)	316,558
Cash flows from non-capital financing activities:			25.42.4
Operating transfers in	(57,287)	96,194	96,194 (57,287)
Operating transfers out	(37,281)		(37,207)
Net cash provided (used) by non-capital	(57.207)	06 104	20.007
financing activities	(57,287)	96,194	38,907
Cash flows from capital and related financing activities:	(215 969)		(315,868)
Acquisition and construction of capital assets	(315,868)		(313,808)
Net cash provided (used) by capital and related	(315,868)	_	(315,868)
financing activities	(313,808)		(313,800)
Cash flows from investing activities:			
Interest received	17,981	-	17,981
Rent received	7,200		7,200
Net cash provided (used) by investing activities	25,181		25,181
Net increase (decrease) in cash and cash equivalents	(27,961)	92,739	64,778
Cash and cash equivalents, beginning of year	588,288		588,288
Cash and cash equivalents, end of year	\$ 560,327	\$ 92,739	\$ 653,066
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ (90,689)	\$ (3,455)	\$ (94,144)
Adjustments:	207.025		206.025
Depreciation Change in assets and liabilities:	286,935	-	286,935
Accounts receivable	5,460	-	5,460
Notes receivable	4,740	-	4,740
Accrued interest receivable	2,171	-	2,171
Prepaid expenses	(6,868)	-	(6,868)
Checks written in excess of deposits	132,230	-	132,230
Accounts payable and accrued expenses Compensated absences payable	(5,122) (8,844)	-	(5,122) (8,844)
Net cash provided (used) by operating activities	\$ 320,013	\$ (3,455)	\$ 316,558
· 1 · · · · · · · · · · · · · · · · · ·	***		***************************************

FIDUCIARY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

County and School Tax Fund	October 1, 2003	Additions	Deductions	September 30, 2004
Assets Cash and cash equivalents	\$ 119,473	\$ 2,526,768	\$ 2,580,596	\$ 65,645
Liabilities Due to other governmental units	\$ 119,473	\$ 2,526,768	\$ 2,580,596	\$ 65,645
Payroll Fund				
Assets Cash and cash equivalents	<u>\$ 167</u>	\$ 3,045,449	\$ 3,045,522	\$ 94
Liabilities Accrued expenses	<u>\$ 167</u>	\$ 3,045,449	\$ 3,045,522	\$ 94
Fire Insurance Escrow Fund				
Assets Cash and cash equivalents	\$ 268	\$ 4	\$ -	<u>\$ 272</u>
Liabilities Accounts payable	<u>\$ 268</u>	\$ 4	\$ -	\$ 272
Total Agency Funds				
Assets Cash and cash equivalents	\$ 119,908	\$ 5,572,221	\$ 5,626,118	\$ 66,011
Liabilities Accounts payable and accrued expenses Due to other governmental units	\$ 435 119,473	\$ 3,045,453 2,526,768	\$ 3,045,522 2,580,596	\$ 366 65,645
Total liabilities	\$ 119,908	\$ 5,572,221	\$ 5,626,118	\$ 66,011

SCHEDULE OF DEBT

September 30, 2004

1997 GENERAL OBLIGATION LIMITED TAX BUILDING AUTHORITY BONDS

Issue Dated February 1, 1997 in the amount of \$1,600,000

Less: Principal paid in prior years (315,000)

Principal paid in current year (65,000)

Balance payable at September 30, 2004 \$1,220,000

Balance payable as follows:

Fiscal <u>Year Ended</u>	Rate]	Interest	<u>Principal</u>	<u>Total</u>
2005	4.60%	\$	61,135	\$ 65,000	\$ 126,135
2006	4.70%		57,995	70,000	127,995
2007	4.80%		54,550	75,000	129,550
2008	4.90%		50,913	75,000	125,913
2009	5.00%		47,075	80,000	127,075
2010	5.05%		42,929	85,000	127,929
2011	5.15%		38,465	90,000	128,465
2012	5.20%		33,678	95,000	128,678
2013	5.25%		28,451	105,000	133,451
2014	5.30%		22,780	110,000	132,780
2015	5.30%		16,817	115,000	131,817
2016	5.40%		10,395	125,000	135,395
2017	5.40%		3,509	130,000	 133,509
		<u>\$</u>	468,692	\$ 1,220,000	\$ 1,688,692

Interest on the above bond is payable semi-annually at the indicated rate on August 1 and February 1.

SCHEDULE OF DEBT

September 30, 2004

INSTALLMENT PURCHASE NOTE PAYABLE - LAND PURCHASE

Contract dated March 23, 2000 in the amount of \$500,000

Less: Principal paid in prior years (76,266)
Principal paid in current year (25,235)

Balance payable at September 30, 2004 \$398,499

Balance payable as follows:

Fiscal <u>Year Ended</u>	Rate	<u>I</u>	nterest	<u>P</u>	rincipal	<u>Total</u>
2005	7.00%	\$	27,895	\$	27,002	\$ 54,897
2006	7.00%		26,005		28,892	54,897
2007	7.00%		23,982		30,915	54,897
2008	7.00%		21,818		33,079	54,897
2009	7.00%		19,503		35,394	54,897
2010	7.00%		17,025		37,872	54,897
2011	7.00%		14,374		40,523	54,897
2012	7.00%		11,537		43,360	54,897
2013	7.00%		8,502		46,395	54,897
2014	7.00%		5,255		49,642	54,897
2015	7.00%		1,780		25,425	 27,205
		\$	177,676	\$	398,499	\$ 576,175

Interest and principal is paid annually on December 1.

SCHEDULE OF DEBT

September 30, 2004

PROMISSORY NOTE PAYABLE - LAND CONTRACT

Contract dated December 14, 2001 in the amount of \$800,000

Less: Principal paid in prior years - Principal paid in current year - -

Balance payable at September 30, 2004 \$800,000

Balance payable as follows:

Fiscal <u>Year Ended</u>	<u>Rate</u>]	Interest	Principal		Total
2005	8.00%	\$	63,795	\$ 7,776	\$	71,571
2006	8.00%		62,976	11,118		74,094
2007	8.00%		62,053	12,041		74,094
2008	8.00%		61,054	13,040		74,094
2009	8.00%		59,972	14,123		74,095
2010	8.00%		58,799	15,295		74,094
2011	8.00%		57,530	16,564		74,094
2012	8.00%		56,155	17,939		74,094
2013	8.00%		54,666	19,428		74,094
2014	8.00%		53,054	21,041		74,095
2015	8.00%		51,307	22,787		74,094
2016	8.00%		49,416	24,678		74,094
2017	8.00%		47,368	26,727		74,095
2018	8.00%		45,149	28,945		74,094
2019	8.00%		42,747	31,348		74,095
2020	8.00%		40,145	33,949		74,094
2021	8.00%		37,327	36,767		74,094
2022	8.00%		34,276	39,819		74,095
2023	8.00%		30,971	43,124		74,095
2024	8.00%		27,391	46,703		74,094
2025	8.00%		23,515	50,579		74,094
2026	8.00%		19,317	54,777		74,094
2027	8.00%		14,771	59,324		74,095
2028	8.00%		9,847	64,248		74,095
2029	8.00%		4,514	69,580		74,094
2030	8.00%		244	18,280	_	18,524
		<u>\$</u>	1,068,359	\$ 800,000	\$	1,868,359

Interest and principal is paid monthly.

SCHEDULE OF DEBT

September 30, 2004

PROMISSORY NOTE PAYABLE - LAND CONTRACT

Contract dated Dece	mber 24, 2001 in the amount of	\$ 50,000
Less:	Principal paid in prior years Principal paid in current year	 (16,667) (16,667)
Balance payable at S	September 30, 2004	\$ 16,666

Balance payable as follows:

Fiscal <u>Year Ended</u>	Rate	<u>In</u>	terest	<u>P</u>	rincipal	Total
2005	6.00%	\$	1,000	\$	16,666	\$ 17,666
		\$	1,000	\$	16,666	\$ 17,666

Interest and principal is paid annually.

SCHEDULE OF DEBT

September 30, 2004

2001 MICHIGAN STRATEGIC LOAN

Grant dated October 19, 2000 in the amount of		\$	400,000
Add:	Interest accrued thru 11/1/03		48,000
Less:	Principal paid in prior years Principal paid in current year		(26,345)
Balance payable at Septe	ember 30, 2004	<u>\$</u>	421,655

Balance payable as follows:

Fiscal <u>Year Ended</u>	Rate	<u>I1</u>	<u>iterest</u>	<u>P</u>	rincipal		Total
2005	6.00%	\$	24,678	\$	27,962	\$	52,640
2006	6.00%		22,962		29,678		52,640
2007	6.00%		21,141		31,499		52,640
2008	6.00%		19,208		33,432		52,640
2009	6.00%		17,157		35,483		52,640
2010	6.00%		14,979		37,661		52,640
2011	6.00%		12,668		39,972		52,640
2012	6.00%		10,215		42,425		52,640
2013	6.00%		7,612		45,028		52,640
2014	6.00%		4,849		47,791		52,640
2015	6.00%		1,916		50,724	_	52,640
		\$	157,385	\$	421,655	\$	579,040

Interest and principal is paid quarterly on November 1, February 1, May 1, and August 1.

BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS

SCHEDULE OF DEBT

September 30, 2004

2000 WATER and SEWER REVENUE BONDS

Issue dated June 1, 20	000 in the amount of	\$	1,955,000
Less:	Principal paid in prior years Principal paid in current year		(110,000) (60,000)
Balance payable at So	eptember 30, 2004	<u>\$</u>	1,785,000

Balance payable as follows:

Fiscal <u>Year Ended</u>	Rate		<u>Interest</u>	<u>Principal</u>		<u>Total</u>
2005	4.80%	\$	92,698	\$ 65,000	\$	157,698
2006	4.85%		89,561	65,000		154,561
2007	4.85%		86,288	70,000		156,288
2008	4.90%		82,753	75,000		157,753
2009	4.95%		78,935	80,000		158,935
2010	5.00%		74,830	85,000		159,830
2011	5.00%		70,455	90,000		160,455
2012	5.10%		65,783	95,000		160,783
2013	5.20%		60,760	100,000		160,760
2014	5.30%		55,378	105,000		160,378
2015	5.35%		49,653	110,000		159,653
2016	5.40%		43,470	120,000		163,470
2017	5.40%		36,855	125,000		161,855
2018	5.50%		29,768	135,000		164,768
2019	5.50%		22,068	145,000		167,068
2020	5.65%		13,701	155,000		168,701
2021	5.65%	-,	4,661	165,000		169,661
		<u>\$</u>	957,617	\$ 1,785,000	<u>\$</u>	2,742,617

Interest on the above item is payable semi-annually at the indicated rate on December 1 and June 1.

The 2000 Water and Sewer Revenue Bonds are allocated to the Enterprise Funds as follows:

Sewer Fund	66.6513%	\$ 1,189,726
Water Fund	33.3487%	595,274
		\$ 1.785.000

COMPONENT UNITS

SCHEDULE OF DEBT

September 30, 2004

1994 DOWNTOWN DEVELOPMENT AUTHORITY GENERAL OBLIGATION BONDS

Issue dated July 1, 19	94 in the amount of	\$ 620,000
Less:	Principal paid in prior years Principal paid in current year	 (250,000) (45,000)
Balance payable at S	eptember 30, 2004	\$ 325,000

Balance payable as follows:

Fiscal <u>Year Ended</u>	Rate	<u>Ir</u>	iterest	<u>P</u>	rincipal	Total
2005	5.55%	\$	17,636	\$	45,000	\$ 62,636
2006	5.65%		14,975		50,000	64,975
2007	5.75%		12,125		50,000	62,125
2008	5.85%		9,079		55,000	64,079
2009	5.95%		5,685		60,000	65,685
2010	6.00%		1,950		65,000	 66,950
		\$	61,450	\$	325,000	\$ 386,450

COMPONENT UNITS

SCHEDULE OF DEBT

September 30, 2004

1997 LIMITED TAX GENERAL OBLIGATION DOWNTOWN DEVELOPMENT BONDS

Issue dated April 1, 1	997 in the amount of	\$	510,000
Less:	Principal paid in prior years Principal paid in current year		(185,000) (40,000)
Balance payable at S	eptember 30, 2004	<u>\$</u>	285,000

Balance payable as follows:

Fiscal <u>Year Ended</u>	Rate	<u>I</u>	nterest	<u>F</u>	Principal	<u>Total</u>
2005	5.38%	\$	15,895	\$	40,000	\$ 55,895
2006	5.40%		13,745		45,000	58,745
2007	5.50%		11,315		45,000	56,315
2008	5.60%		8,840		50,000	58,840
2009	5.70%		6,040		50,000	56,040
2010	5.80%		3,190		55,000	 58,190
		\$	59,025	\$	285,000	\$ 344,025

Interest on the above bond is payable semi-annually at the indicated rate on November 1 and May 1.

SCHEDULE OF OPERATING REVENUES

Operating revenues Demand response - fares Other nontransportation revenues	\$ 15,806 913
Total operating revenues	\$ 16,719

SCHEDULE OF OPERATING EXPENSES

	Operations	Maintenance	General Administration	Total System
Labor:				
Operators' salaries	\$ 35,492	\$ -	\$ -	\$ 35,492
Other salaries	22,810	2,986	19,311	45,107
Fringe benefits	39,497	228	1,372	41,097
Services:				
Audit	-	-	2,339	2,339
City administration	-	10,167	-	10,167
Other services	-	2,551	-	2,551
Materials and supplies consumed:				
Fuels and lubricants	6,265	-	-	6,265
Tires and tubes	1,928	-	-	1,928
Other materials and supplies	-	9,843	-	9,843
Utilities:				
Telephone	962	-	-	962
Insurance:				
Casualty and liability insurance	3,415	-	396	3,811
Rental:			•	
Building/office	1,700	-	7,000	8,700
Depreciation	26,128	-	-	26,128
Miscellaneous expenses:				
Other	584	571	366	1,521
Total operating expenses	\$ 138,781	\$ 26,346	\$ 30,784	\$ 195,911

SCHEDULE OF NON-OPERATING REVENUES

Local Revenues: City of Dowagiac - property taxes	\$ 43,001 43,001
State of Michigan Operating Grant: Formula operating assistance Fiscal year 1999 reconciliation adjustment Fiscal year 2003 reconciliation adjustment	75,124 (824) (1,240) 73,060
Federal Operating Grant: Federal Section 5311 - operating assistance	14,610 14,610
Interest Income	1,246 1,246
Total non-operating revenues	<u>\$ 131,917</u>

SCHEDULE OF TRANSFERS

Transfers: Transfer to other fund for computer equipment rental	\$ 716
Total transfers	\$ 716

SCHEDULE OF NET ELIGIBLE COSTS COMPUTATION OF GENERAL OPERATIONS

		Federal Section 5311		State Operating Assistance	
Expenses:	_	00.500	•	00.500	
Labor	\$	80,599	\$	80,599	
Fringe benefits		41,097		41,097	
Services		15,057		15,057	
Materials and supplies consumed		18,036		18,036 962	
Telephone		962		3,811	
Casualty and liability insurance		3,811		3,811 8,700	
Building and office rental		8,700		26,128	
Depreciation		26,128			
Miscellaneous expenses		1,521		1,521	
Total expenses		195,911		195,911	
Less - ineligible expenses: Depreciation on assets purchased with federal and/or state funds Audit	<u></u>	(24,957) (2,339)		(24,957)	
Net eligible expenses	<u>\$</u>	168,615	\$	170,954	
Net deficit - Section 5311	<u>\$</u>	168,615			
Eligible Section 5311 reimbursement (10.95%)	<u>\$</u>	18,463			
Eligible for state operating assistance: Maximum state operating assistance: Lesser of 42.236619648% of expenses eligible for state operating assistance or the City's prorated share of available funds.					
42.236619648% of eligible expenses			\$	72,205	
But at least a minimum of its 1997 floor of			\$	55,299	

SCHEDULE OF DETAIL OF INELIGIBLE EXPENSES

	Amount Ineligible		
Audit	\$	2,339	
Depreciation associated with an asset purchased with federal and/or state funds is not eligible:			
Computer		408	
Buses		24,549	
Total ineligible expenses	\$	27,296	

SCHEDULE OF MILEAGE, VEHICLE HOURS, AND PASSENGER DATA

Year Ended September 30, 2004 (Unaudited)

As required by the Michigan Department of Transportation, schedules of mileage, vehicle hours, and number of passengers transported for the year ended September 30, 2004 are as follows:

MILEAGE

	Vehicle <u>Miles</u>		
Demand - Response 1st quarter	11,526		
2nd quarter 3rd quarter	12,577 10,656		
4th quarter	11,283		
Total mileage	46,042		

VEHICLE HOURS AND PASSENGERS:

VEHICLE HOURS AND I'M	Vehicle Hours	Regular Passengers	Senior Passengers	Handicapped Passengers	Senior Handicapped Passengers
Demand - Response 1st quarter 2nd quarter 3rd quarter 4th quarter	1,132 1,116 1,116 1,170	4,708 5,802 3,934 3,194	1,880 1,647 1,459 1,642	583 555 588 446	668 666 742 769
	4,534	17,638	6,628	2,172	2,845

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

The City is not using derivative instruments in any of its funds or pension portfolios.



60 Harrow Lane Saginaw, Michigan 48603

(989) 791-1555 Fax (989) 791-1992

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and the Members of City Council City of Dowagiac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dowagiac, Michigan, as of and for the year ended September 30, 2004, which collectively comprise the City of Dowagiac, Michigan's basic financial statements and have issued our report thereon dated November 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Dowagiac, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dowagiac, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Berthiaume & Company Certified Public Accountants

Borthiaum & Co.

November 4, 2004



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MANAGEMENT LETTER

To the Honorable Mayor and the Members of City Council City of Dowagiac, Michigan

We have completed our audit of the financial statements of the City of Dowagiac for the year ended September 30, 2004, and have issued our report thereon dated November 4, 2004. As part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the City's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The City's administration is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute assurance that assets are safeguarded against unauthorized use or disposition and that transactions are executed in accordance with the administration's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the City of Dowagiac taken as a whole. Our study and evaluation disclosed no conditions that we believe to be material weaknesses.

This report is intended solely for the use of the City management and should not be used for any other purpose.

We wish to extend our appreciation to you and your staff for the assistance accorded us during our examination.

Sincerely,

Berthiaume & Company

Certified Public Accountants

Bosthiaume & Co.

November 4, 2004